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AFTER KATRINA: THE ROLE OF THE DEPARTMENT OF JUSTICE KATRINA FRAUD TASK FORCE AND AGENCY INSPECTORS GENERAL IN PREVENTING WASTE, FRAUD AND ABUSE

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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AFTER KATRINA: THE ROLE OF THE DEPARTMENT OF JUSTICE KATRINA FRAUD TASK FORCE AND AGENCY INSPECTORS GENERAL IN PREVENTING WASTE, FRAUD AND ABUSE

WEDNESDAY, MAY 10, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:10 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts, (chairman of the subcommittee) presiding.

Present: Representatives Platts and Towns.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Tabetha Mueller, professional staff member; Erin Phillips, clerk; Adam Bordes, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. This hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

When Hurricane Katrina struck, our Nation's first priority was to provide immediate help to our fellow citizens. In the first 2 weeks after the storm, Congress appropriated more than $60 billion, nearly twice the annual budget for the entire Department of Homeland Security. Once the full scope of the disaster became apparent, Federal, State and local governments started the monumental task of helping Gulf Coast residents to recover and rebuild. Having recently completed a tour of the area, I must reiterate what I tell my constituents back home and my colleagues that have not visited the area, that the devastation is so massive and extensive that pictures cannot begin to tell the story. The road to recovery will be long and challenging.

After the initial push to provide emergency assistance, a new and critically important priority arose, the need to ensure that the financial resources provided for the recovery and rebuilding efforts, which already amount to approximately $85 billion, are spent wisely.

In the immediate aftermath of Hurricane Katrina, by far the worst natural disaster in U.S. history, the controls that are normally in place to ensure accountability of disaster relief benefits were suspended. This was an eminently reasonable approach, given

the urgency and magnitude of the situation. At the same time, however, every dollar that is wasted through fraud or mismanagement is a dollar that does not go to someone who truly needs it. It is thus important to reestablish controls as quickly as possible and to keep a close watch as taxpayer dollars continue to be expended over the long term. Now that we are in the more extensive recovery and rebuilding phase, those controls are more important than ever.

Recovering from this disaster of unprecedented magnitude involves nearly every agency in the Federal Government, and it will continue for years to come. While FEMA is the most visible of these agencies, providing immediate assistance. The bulk of money for effective individuals will actually come from the Small Business Administration in the form of low interest disaster loans and grants from the Department of Housing and Urban Development. The Department of Defense, with its formidable resources and expertise, has also dedicated significant personnel and dollars to the recovery effort.

Fortunately, each of these departments and agencies has a built-in watchdog, an Office of Inspector General. As soon as Katrina hit, the President's Council on Integrity and Efficiency turned to its Homeland Security Working Group, headed by the Department of Homeland Security, to coordinate the efforts of all affected IGs. This working group continues to operate and effectively leverage the collective knowledge and resource that can be targeted to ensure accountability.

In the spirit of cooperation, the Department of Justice established a Hurricane Katrina Fraud Task Force soon after Katrina hit, drawing on the expertise of Inspectors General, the FBI, and State and local law enforcement personnel. The subcommittee is pleased today to hear from the Hon. Alice Fisher, Assistant Attorney General of the Criminal Division at the Department of Justice, and Chair of the Katrina Task Force. We certainly look to our work today and our conversations, and continue to work with the Task Force and its coordinated law enforcement efforts.

We will also be pleased to hear from several of the Inspectors General involved with the Hurricane Katrina recovery. These IGs work not only to uncover and prevent fraud, but also to ensure the integrity of the programs they oversee. We will be hearing from Mr. Matt Jadacki, Special Inspector General for Gulf Coast Hurricane Recovery, with the Department of Homeland Security; the Hon. Ken Donohue, Inspector General for the Department of Housing and Urban Development; Mr. Thomas Gimble, Principal Deputy Inspector General at the Department of Defense; and the Hon. Eric Thorson, Inspector General of the Small Business Administration.

I traveled to the Gulf Coast with Mr. Jadacki and DOD-OIG staff to learn firsthand exactly what controls are in place, and what is being done to monitor the expenditure of Federal funds. I was impressed by the level of coordination, not only among Federal agencies, but also between Federal, State and local governments, as well as private partners.

I certainly thank all of our witnesses who are participating here today, for not just your testimony, but your great leadership in this

important oversight responsibility regarding the recovery from this terrible natural disaster.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY
TODD RUSSELL PLATTS, CHAIRMAN

Oversight Hearing:

"After Katrina: The Role of the Department of Justice Katrina Fraud Task Force and Agency Inspectors General in Preventing Waste, Fraud, and Abuse"

Wednesday, May 10, 2006, 2:00 p.m.
Room 2247 Rayburn House Office Building

OPENING STATEMENT OF CHAIRMAN PLATTS

When Hurricane Katrina struck, our nation's first priority was to provide immediate help. In the first two weeks after the storm, Congress appropriated more than $60 billion – nearly twice the annual budget for the entire Department of Homeland Security. Once the full scope of the disaster became apparent, Federal, state, and local governments started the monumental task of helping Gulf Coast residents to recover and rebuild. Having recently completed a tour of the area, I must reiterate what I tell my constituents and colleagues: the devastation is so massive and extensive that pictures do not begin to tell the story. The road to recovery will be long and challenging.

After the initial push to provide emergency assistance, a new and critically important priority arose: the need to ensure that the financial resources provided for the recovery and rebuilding efforts – which already amount to approximately $85 billion Federal dollars – are spent wisely.

In the immediate aftermath of Hurricane Katrina – by far the worst natural disaster in U.S. history – the controls that are normally in place to ensure accountability of disaster relief benefits were suspended. This was an eminently reasonable approach given the urgency and magnitude of the situation. At the same time, however, every dollar that is wasted through fraud or mismanagement is a dollar that does not go to someone who needs it. It is thus important to re-establish controls as quickly as possible and to keep a close watch as taxpayer dollars continue to be expended over the long term. Now that we are in the rebuilding phase, those controls are more important than ever.

Recovering from this disaster of unprecedented magnitude involves nearly every agency in the Federal government, and it will continue for years to come. While FEMA is the most visible, providing immediate assistance, the bulk of money for affected individuals will actually come from the Small Business Administration in the form of low-interest disaster loans and grants from the Department of Housing and Urban Development. The Department of Defense, with its formidable resources and expertise, has also dedicated significant personnel and dollars to the recovery effort.

Fortunately, each of these departments and agencies has a built-in watchdog - an Office of Inspector General. As soon as Katrina hit, the President's Council on Integrity and Efficiency turned to its Homeland Security Working Group headed by the Department of Homeland Security to coordinate the efforts of all affected IGs. This working group continues to operate and effectively leverage the collective knowledge and resources that can be targeted to ensure accountability.

In the spirit of cooperation, the Department of Justice established a Hurricane Katrina Fraud Task force soon after Katrina hit, drawing on the expertise of Inspectors General, the FBI, and state and local law enforcement. The Subcommittee is pleased to hear today from **the Honorable Alice Fisher**, Assistant Attorney General of the Criminal Division at the Department of Justice and Chair of the Katrina Task Force. We look forward to discussing the work of the Task Force and its coordinated law enforcement efforts.

We are also pleased to hear from several of the Inspectors General involved with the Hurricane Katrina recovery. These IGs work not only to uncover and prevent fraud but also to ensure the integrity of the programs they oversee. We will be hearing from **Mr. Matt Jadacki,** Special Inspector General for Gulf Coast Hurricane Recovery with the Department of Homeland Security; **the Honorable Ken Donohue,** Inspector General for the Department of Housing and Urban Development; **Mr. Thomas Gimble,** Principal Deputy Inspector General at the Department of Defense; and **the Honorable Eric Thorson,** Inspector General of the Small Business Administration.

I traveled to the Gulf Coast with Matt Jadacki and DOD-OIG staff to learn firsthand exactly what controls are in place and what is being done to monitor the expenditure of Federal funds. I was impressed by the level of coordination -- not only among Federal agencies, but also between state and local governments and private entities.

Thank you to our witnesses for being here today and for your work. I look forward to your testimonies.

Mr. PLATTS. Our ranking member, Mr. Towns, is en route to the hearing, and when he joins us, we will offer him an opportunity for an opening statement. In the meantime, I think what we will do is move to our first witness.

It is the practice of the committee, if I could ask, Ms. Fisher, if you could stand to be sworn in.

[Witness sworn.]

Mr. PLATTS. Thank you. You may be seated. The clerk will acknowledge that the witness answered in the affirmative.

We have a general timeframe, I think, probably set at 7 minutes, it looks like, but, please, your leadership has been tremendous from the first weeks of this disaster, and the importance of safeguarding the taxpayer funds as we provide that very important and necessary relief to the citizens of the Gulf Coast. So if you need more than that time, we want you to take it. We are delighted to have you here and to have your expertise shared with the committee and the public.

STATEMENT OF ALICE S. FISHER, ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, U.S. DEPARTMENT OF JUSTICE, AND CHAIR, HURRICANE KATRINA FRAUD TASK FORCE

Ms. FISHER. Thank you, Mr. Chairman, for your kind comments. I am so pleased to be here today to share some of the work of the Hurricane Katrina Fraud Task Force with you and the rest of the committee.

It has been my honor and my pleasure to serve as chairman of the Hurricane Katrina Fraud Task Force since its inception on September 8th of last year when the Attorney General set it up.

The task force has had one very clear mission, and that is to have a coordinated law enforcement effort to make sure that the dollars that Congress and the private sector intend to go to the victims actually reaches the victims and not the predators, who would seek to illegally divert it for their own pockets. It has been a tremendous opportunity for me to work with my colleagues from the FBI, Secret Service, Postal Inspector, and the Inspector General community at large, some of whom are here today, and see the dedication and commitment and resolve that they have brought to this mission from the very beginning.

It was an outpouring, as of September 8th, and has been since that time, of a coordinated effort, not only among Federal law enforcement agencies, but also with our State and local law enforcement partners, to combat this fraud and continue to combat this fraud.

I think that we have been very successful in this effort. Since that time we have brought charges against over 263 defendants in 200 cases, and 24 judicial districts from Florida all the way to California, in all types of cases. We've been focusing on charity fraud, benefits fraud, procurement fraud, public corruption, insurance fraud, identity theft, and all of the fraud schemes that come out of Katrina.

But we've been moving beyond not only the benefits frauds that were kind of the initial ones with the $2,500 FEMA benefits, where people were applying for benefits that they weren't entitled to, and

into some of the more complex contracting and public corruption cases as of late.

Let me give you a couple of examples of that. Just last week, in the Middle District of Louisiana, we had a case where a contractor from the Louisiana Department of Labor, allegedly used his position in the Louisiana Department of Labor to have Disaster Unemployment Assistance debit cards fraudulently issued, and then he would go out and sell them for $100 or $150 to others that were not entitled to it. At the time of his arrest last week, the defendant was accepting payment from another man for a fraudulent benefit card that he issued at the request of the other man.

In southern Mississippi last month, we obtained two guilty pleas, one from a subcontractor and one from an official at the Army Corps of Engineers Quality Assurance, relating to a conspiracy to commit bribery in relation to debris removal contracts in Mississippi. In this case, the Federal agents recorded conversations between the contractor and the Corps employee, in which the contractor paid the Corps employee $100 for false load tickets. When they pled guilty, they admitted to at least 14 of these instances where the contractor would say, "I hauled out this much loads of debris." It was completely false, but the Army Corps of Engineer, for a kickback, would agree that it was adequate. So we charged them and they have now pled guilty.

Similarly, in April, in eastern Louisiana, we secured guilty pleas from two former FEMA managers with regard to a conspiracy and bribery scheme. In that scheme there were these two FEMA managers who worked on a contract with an individual who operated the base camp in Algiers, LA, and had a $1 million meal service contract at the base camp. The FEMA managers asked him to inflate the billing on that contract in return for a kickback for $10,000 for the scheme, again, illegal bribes. They have now pled guilty.

So we have been very aggressive in these cases. We've also moved to fraudulent billing schemes by hotels. Last week in east Texas we indicted a general manager of a hotel in Texarkana on wire fraud charges. This defendant allegedly billed the Red Cross for hotel rooms where evacuees were not staying.

On March 2nd, similarly in Houston, we indicted the principal owner of a Galveston hotel for a similar scheme of false claims charges to FEMA, billing FEMA for hotel rooms that were allegedly used for evacuees, but actually being used for friends and family and others.

Even in the emergency assistance realm we're seeing more complex schemes, where some people will go out and recruit others to let them use their false names and then go apply for benefits in these systems.

So we've seen a lot of patterns. We've seen a myriad of different fraud schemes, and we're going after all of them very aggressively and very pro-actively, again, because our mission is to make sure that the money gets to the victims who need them.

Now, I said that this has been a very well-coordinated law enforcement effort, and I think that the reason that this task force has been so successful is that from the beginning we have been lucky enough to have the commitment and buy-in from so many of

the Federal and local law enforcement agencies in supporting the task force and the mission. Everyone shares the resolve to make sure that the money gets into the hands of the victims, but that joint effort is critical to the success of the task force.

A second thing that's been very critical is that we made the decision to have a command center down in Baton Rouge, LA, which I know you have been down in that area and have had the pleasure of meeting Mr. Dugas, who is the executive director of the command center, and also the U.S. Attorney for the Middle District of Louisiana.

This command center is a place where our law enforcement agencies can be co-located. And it's worked fantastically. They go, they share data, they share information about investigations, they coordinate their investigations, share resources. They have weekly or biweekly meetings to talk about patterns and trends and analysis that they're seeing. And it's really been a boon.

So not only does the Inspector General community and the task force have meetings up here in Washington, where we talk about strategy and policy and what we're seeing and what we should be doing to protect the money, but down on the ground we have law enforcement meeting at the command center and sharing information about investigations on a regular basis. They're screening thousands of fraud complaints at the command center.

Third, I think we've been very committed in the task force to get the training that is needed for the people to conduct this mission. In October of last year we had a large meeting down in New Orleans, where we brought people from headquarters and people from on the ground—Mississippi, Alabama, Louisiana, Texas—to come together, again talk about the statutes we were going to prosecute and how to look for fraud trends, talk about the mission, talk about the strategy, talk about the command center and the importance of sharing information.

Then later, after that conference, we have sent experts down to the Gulf region to train particularly on things like bid-rigging and procurement fraud, so the auditors and the investigators know what to look for from a perspective of when they need to be referred for criminal prosecution. Now, this is obviously something that investigators are trained for and the Inspector General community is well trained for. But we sent criminal prosecutors down there to work with them so they would know exactly what we need and what to look for.

We have also been very aggressively proactive in that we're not sitting back at the command center or here in Washington at the task force and necessarily just waiting for a criminal referral to be made to us before we prosecute. We've been taking tips from the hotlines, we've been meeting with the Inspector General community. For example—the Inspector General of HUD is here—I've had meetings with him to talk about the money that's going to go out in a proactive manner and how we best can help to protect that and what we can do in that effort. We've been proactive with things like identity theft, where the Postal Inspector General sent out brochures to people in the Gulf region on how to protect their identity, so we don't have to only wait for the fraud to happen at the back end.

And finally and, I think, very importantly, is consistently we have sent the message that we have zero tolerance for fraud. As you know, Federal prosecution generally doesn't happen at the low-level, $2,500, $5,000–10,000 level, because of resources. But in this case, we thought it very important, and the AG believed it was very important, to get out early and to send a message that we will just not tolerate people stealing from these victims. And we sent that message, and I think it's had a very good impact. In fact, since the task force was sent up, we've been told by FEMA and the Red Cross that they've received over $8 million in checks returned to them.

Now, we can't say it's all because of our deterrent message and because of our prosecutions, but we've gotten evidence from both entities that some of the checks that have been received have indications that they were things that necessarily were evidence of fraud. So we're very happy to see that deterrent message coming through.

I think in closing I would just say we are committed to this, to the long haul. It has been a massive effort with the Inspector General community and the FBI and Secret Service and others to come forward on this and to come together. There are many, many individuals that have been working hard on this. As for going forward, this isn't something that I see stopping. We are committed to this. And in fact, the Attorney General said to me recently that the Department of Justice is going to remain aggressive and committed to prosecuting fraudsters who take these relief funds from the people that need it to rebuild their homes and their lives and their cities and their families.

So thank you again for having this hearing and inviting me here.

[The prepared statement of Ms. Fisher follows:]

U.S. Department of Justice

STATEMENT

OF

ALICE S. FISHER

ASSISTANT ATTORNEY GENERAL

CRIMINAL DIVISION

UNITED STATES DEPARTMENT OF JUSTICE

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

UNITED STATES HOUSE OF REPRESENTATIVES

CONCERNING

"AFTER KATRINA: THE ROLE OF THE DEPARTMENT OF JUSTICE KATRINA FRAUD TASK FORCE AND AGENCY INSPECTORS GENERAL IN PREVENTING WASTE, FRAUD AND ABUSE"

PRESENTED ON

MAY 10, 2006

Testimony of Alice S. Fisher
Assistant Attorney General of the Criminal Division
United States Department of Justice
Before the Subcommittee on Government Management, Finance, and Accountability
Government Reform Committee
U.S. House of Representatives
Concerning
"After Katrina: the Role of the Department of Justice's Katrina Fraud Task Force and Agency Inspectors General in Preventing Waste, Fraud, and Abuse"

May 10, 2006

Chairman Platts, Ranking Member Towns, and distinguished Members of the Subcommittee, 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 got 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 8, 2005, 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 civil 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 more than $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 send a palpable and effective message of deterrence. The sheer number of prosecutions that have been undertaken to date – in just eight months – reflects the singular purpose with which we have approached this challenge.

To date, the Task Force has brought criminal charges against 261 defendants in 218 cases in 24 judicial districts across the country, and has obtained 44 convictions, including at trial. I should point out that 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 group 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, widely dispersed staff, and a colossal law enforcement crisis, provided leadership for the Command Center in its start-up phase. Even before U.S. Attorney Letten and his staff were able to return to New Orleans, his close partner, the United States Attorney for the Middle District of

Louisiana, David Dugas, 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 Department of Homeland Security Inspector General 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 published a progress report to the Attorney General in February 2006 that provides greater detail on our progress and accomplishments. However, I want to take this opportunity to update you on 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.

The 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. We are now answering the PCIE hotline, and receive about 50 calls on weekdays and about half that number on weekends. We have sufficient staff at the Command Center to screen and refer those calls daily, so we have no backlog. Now that we are answering the PCIE

hotline, the DHS-Office of Inspector General has been able to work through most of its backlog of complaints previously received on the hotline. All future complaints will be handled by the Command Center, relieving the agents and supervisory agents in the field of that burden.

- ***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. We currently have more than 3,000 complaints indexed in our database. All have been screened by agents at the Command Center and referred for follow up if appropriate.

- ***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. We also have 210 Task Force personnel who are enrolled in the LEO Hurricane Katrina Fraud Special Interest Group, representing these 32 law enforcement agencies.

- ***Assigned full-time personnel to add analytical value:*** In addition to these Command Center agency representatives, the Command Center currently has an FBI supervisory agent, an FBI agent, two full-time FBI analysts, two full-time FBI support personnel, and a student worker. The DHS-Office of Inspector General supervisor in Baton Rouge is moving into an office at the Command Center and soon will have an agent and intelligence analyst stationed full time at the Command Center. In addition, HUD-Office of Inspector General has assigned a forensic analyst to the Command Center who will report for duty in June. These full-time analysts at the Joint Command Center play a vital role in ensuring 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 also review information obtained from ongoing investigations and prosecutions in order to detect trends or patterns of fraudulent activity and possible systemic weaknesses. The analytical work at the Command Center is generating investigative leads that are being referred to the field for follow up. In addition, the Command Center staff is providing support to ongoing investigations by doing research and gathering information for the agents.

- ***Training:*** To enhance interagency coordination and development of cases, the Command Center is providing periodic 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 2005, the Command Center has already hosted two training sessions by Department of Justice prosecutors: one for Inspector General auditors, and a second for agents assigned to the Command Center 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, U.S. Attorney David Dugas, 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 did not return to its offices in New Orleans until late December. Yet that office continued to pursue new cases, including Katrina Fraud Task Force cases, even while it was temporarily co-located in Baton Rouge with the United States Attorney's Office for the Middle District of Louisiana between late August and the end of December 2005.

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 and Benefit Fraud and Public Corruption

- On May 3, 2006, a contract employee working at the Louisiana Department of Labor (LDOL) was arrested in the Middle District of Louisiana after accepting a payment from an individual for a fraudulent benefit card that he issued at the request of the individual. The former contract employee allegedly facilitated numerous fraudulent claims for disaster unemployment assistance (DUA) benefit cards.[1]

- On April 5, 2006, two former FEMA employees pleaded guilty in the Eastern District of Louisiana to soliciting bribes as public officials. According to the criminal charges in the case, the two FEMA employees were responsible for managing the FEMA base camp located in Algiers, Louisiana. Those employees 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

[1] *See* United States Attorney's Office, Middle District of Louisiana, Press Release, May 4, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/05-04-06-FEMAFraud-LawlessArrest.pdf.

employees were arrested on January 27, after each took one envelope containing $10,000 from the contractor.[2]

- On March 21, 2006, in the Southern District of Mississippi, a subcontractor involved in debris removal after Hurricane Katrina, as well as a U.S. Army Corps of Engineers employee, pleaded guilty to conspiracy to commit bribery of a federal official. 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. Federal agents recorded conversations between the two defendants in which the subcontractor paid the Corps of Engineers employee $100 for five false load tickets. The defendants admitted to at least 14 additional false load tickets.[3]

- In addition, 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.[4]

- Finally, the Civil Division, working jointly with the office of the United States Attorney for the Middle District of Louisiana, has filed a False Claims Act complaint in a case involving a contract to build a base camp outside New Orleans for the first responders arriving from all over the country to help with post-Katrina recovery. In *United States v. Lighthouse Disaster Relief, et al.* (M.D. La.), the Government filed suit alleging that Lighthouse and its principals did not adequately perform their responsibilities under a contract with the General Services Administration which was funded by FEMA. The suit alleges that the defendants knowingly billed the Government for services it never delivered. The United States also filed an application for garnishment of bank accounts pending resolution of the suit, pursuant to the prejudgment remedies provisions of the Federal Debt Collection Procedures Act. The application for pre-judgment garnishment

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[2] *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

[3] See United States Attorney's Office, Southern District of Mississippi, Press Release, March 21, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/3-21-06USAOSDMS.pdf.

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

was granted, and the Government garnished $1,500,000 in funds in the bank accounts held by Lighthouse and its principals.

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 and claims with others' identifying information. For example, on March 2, 2006, a federal grand jury in the Southern District of Texas indicted a defendant, the principal owner of a company that operated a hotel in Galveston, Texas, for filing false claims with FEMA. The defendant allegedly filed six types of fraudulent claims with FEMA for reimbursement: (1) rooms in the names of hotel employees who previously stayed at the hotel free of charge as part of their employment arrangement; (2) rooms in the name of supposed hurricane evacuees on dates when those rooms were occupied by paying hotel guests with different names; (3) rooms occupied by friends, relatives, and employees of his wife's business, who were recruited to stay at the hotel, but were not evacuees; (4) rooms in the names of supposed hurricane evacuees who never had rooms at the hotel; (5) rooms in the name of supposed hurricane evacuees on dates when those rooms were unoccupied; (6) for multiple rooms in the names of a single guest when, in fact, the guest occupied fewer rooms than billed.[5]

- 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. According to the complaint, the individual paid people in cash or drugs for their information.[6]

- 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

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[5] *See* United States Attorney's Office, Southern District of Texas, Press Release, March 2, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/3-2-06USAOSDTX.pdf.

[6] *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.

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.[7]

- 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.[8]

- 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, between March 27 and April 6, eight Portland-area residents have pleaded guilty in connection with charges relating to their falsely representing that they were displaced by Hurricane Katrina in order to receive FEMA expedited-assistance and rental-assistance checks.[9]

- 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

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[7] *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.

[8] *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.

[9] *See* United States Attorney's Office, District of Oregon, Press Release, April 7, 2006, *available at* http://www.usdoj.gov/katrina/Katrina_Fraud/HKFTF_PressRoom/USAO_OR_04072006.pdf.

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.[10] As of April 12, 2006, 70 persons have been federally charged in this investigation.

- The third type of conduct involves applications by some 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.[11]

- 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 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.[12] On May 5, 2006, he was sentenced to 21 months imprisonment and 2 years supervised release, having already paid restitution.

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.

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[10] *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.

[11] *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.

[12] *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.

I am pleased to share with this Subcommittee 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.

Mr. Chairman, that concludes my prepared statement. I would be pleased to take the Subcommittee members' questions at this time.

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Mr. PLATTS. Thank you, Ms. Fisher. And again, my great thanks for your leadership. As I did tour the region, the work of you and your task force was something that was heralded in a number of different instances, and that coordination that has happened at all levels. I think that is so important here within the Federal Government and then between the various levels of Government and with the private sector.

Your message that you and the Attorney General set forth from the beginning and which U.S. Attorney Dugas has clearly reinforced at the local level is that zero tolerance. I analogize it to Mayor Giuliani and his approach in New York City years ago where you don't look the other way on anything. And even if you start chipping away at the small violations, it kind of is a wave that builds till you have more and more success across the board because of that message of enforcement being out there. So I just very much commend you and all involved in the efforts.

One of the issues you mentioned, an important one, is being in this for the long haul and that this won't be something that is forgotten. We are already 8 months-plus and, having been there after 8 months, the amount of devastation and the rebuilding and the cleanup and the debris removal that is still months and years in the making, is just overwhelming.

In anticipating that long process from a staffing standpoint, if you could address that because I am sure there has been a need to realign a lot of staff. And for the short term, that is one thing, but looking at years, how that is going to impact your needs and ability to maintain that staffing level. And then maybe specifically with the command center at LSU, how you are preparing for that in the long term as well.

Ms. FISHER. Well, I think that the command center, whether it stays at LSU or whether it goes somewhere else, is very important. It's going to be important to this effort for the long haul because the money is going to continue to go out over the next few years. It's not going to stop. So a lot of the fraud may happen later, and if we let our guard down, it will happen. So we're going to be very vigilant going forward.

As far as staffing, I've been overwhelmed by the number of agents that the Inspector Generals and that the FBI and other law enforcement agencies have assigned to the command center and have assigned up here. In fact, they are continuing to assign people and relocate people down into the region to continue on these task forces.

And we can also call on the other field offices to help investigate when it's happening in Mississippi or Louisiana or Texas and other places. So we have that investigative effort as well.

From a prosecution standpoint and staffing, you know, we have been, obviously, besieged in that region with the amount of cases, and the courts. And we are reinforcing that. And I think we do have, actually, some requests in with regard to that. But as you can see, a lot of people were displaced as well, and so that's why we've been able to call upon all our U.S. Attorneys to bring these cases and to have zero tolerance. And they have been fabulously stepping up to the plate. In fact, we had a case out in Bakersfield,

CA, of all places, where 70 defendants were charged in a false debit card scheme.

So I think we will continue to do that and the AG has continued to make that a priority. So I am hoping that we have the staffing and resources in place and, if that changes, we'll have to readjust. But right now, I think we're in good shape to continue to investigate and prosecute these cases.

Mr. PLATTS. Is there a plan—and maybe because we are only 8 months down the road, with your agents as far as rotating them in from a—there is a tremendous demand on them that are down in that region, and the demands daily and the length of the day and the week. Is that something that you are looking at just from, again, from a manpower standpoint of how to manage them?

Ms. FISHER. Well, I think from an investigation standpoint, again, each agency, each Inspector General may have different views on whether they're going to rotate people in or whether they're going to permanently relocate them. I know the FBI has, again, just sent down four new analysts. I'm not sure whether they're going to be there for 1 year or 2 years or 3 years, or how long that will be.

Mr. PLATTS. Maybe a work in progress on how that plays out.

Ms. FISHER. Yes.

Mr. PLATTS. I do want to reference we have been joined by our ranking member, the gentleman from New York, Mr. Towns. Thanks for being with us.

What I'll do is complete the round of questions, and if you want to do a statement or go right into questions, whichever you like.

Mr. TOWNS. OK.

Mr. PLATTS. Without objection, so done.

Ms. FISHER. Good afternoon, sir.

Mr. PLATTS. The challenge of the coordination seems to be, is everyone is working on the same page but the ability under the existing laws and regulations to share some of the data and the Privacy Act. Can you share with us how you think that has hindered in any way or what changes we should be considering legislatively that would ensure that not just from manpower and personnel coordinating, but the law allows the data to be shared to make sure everyone has the information they need.

Ms. FISHER. Well, I think from—because of the command center, we've got the data bases keyed in to the command center. So for example, we have a DHS person there that has access to their NEMIS data base. And that information can be shared with the other operational investigators in the command center when necessary. And that's similar for the other agencies, that they can go back and take the information on an investigation or a contractor and go back and check their data bases to see whether there's an investigation, whether that person that's been convicted of or charged with defrauding the unemployment system is also over here trying to defraud the housing system or the FEMA system. So we're able to do that through this joint sharing operation at the command center. And I think that's working very well.

The issue that I think is a more difficult one that might be better addressed by the Inspector General community is the Computer Matching Act and whether they can just take the NEMIS data base

and take the HUD assistance data base and put them together and see what spits out from that. And that's a trickier issue because of the way that statute works with regard to having an agreement and publishing it in the Federal Register and notifying Congress that they are going to do that.

And while we've been facilitating that conversation and wanting to be very helpful, it's really more of an issue for the investigators there because at the command center we have not seen it as a problem.

Mr. PLATTS. At the command center, a lot of what you've done is very proactive in helping to deter fraud from occurring rather than just uncovering it after the fact, which is something we want to do as well. But is there a proactive sharing—if in the data base, you know, HUD identifies somebody who has committed fraud, or FEMA does, do they automatically then share that with the other departments and agencies that are involved so that they would say, hey, we have this individual for this type of fraud, do you want to check if they are getting benefits or have gotten some kind of benefit from your agency as well?

Ms. FISHER. Yes. And that's exactly why the command center was set up, so that if we are charging people over here with illegal conduct with regard to one agency, that at the command center or at the next meeting the person from DOD-IG can stand up and say we've got this person that we're ready to charge, does anybody else have an investigation on them and can everybody else check their data bases to make sure that you don't have them engaging in suspicious conduct as well.

Mr. PLATTS. Great. That came through in my visit, that type of coordination. It is something that is so critical with the number of agencies and departments in here and the scope, how broad of a scope the challenge is of this recovery.

I am going to come to Mr. Towns and then come back for another round.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Can you offer us—first, thank you for coming. I really appreciate that.

Ms. FISHER. Oh, thank you so much for having me. I really appreciate that as well. I appreciate this hearing.

Mr. TOWNS. Can you offer us criteria to justify what cases to pursue for those families receiving assistance? You know, have criminal complaints been brought against those who might have been provided more than the legal limit by FEMA? Do you have any kind of standards in terms of——

Ms. FISHER. Yes. Yes, Congressman, we do. And that has been made very clear by the Attorney General in setting up this task force, that in the Katrina fraud cases there will be zero tolerance. So we don't have a monetary level for these cases right now. So anybody that's engaged in applying for benefits that they're not entitled to and conspiring with kickbacks for larger amounts of money and getting other types of billings for hotels or otherwise that they're not entitled to, when they're falsifying it, we will go after and prosecute those cases. And we've charged to date 263 defendants in 222 cases in 24 districts across the Nation because of that message.

Mr. TOWNS. Thank you. Have your investigations led to recommending that agencies impose financial penalties or debarment from certain future contracts due to vendor conduct?

Ms. FISHER. That might be a question better posed to the Inspector Generals because they deal with debarment. But they are members of the task force and part of the command center, so whenever we prosecute a case, all task force members are aware of who the defendants are and are able to take whatever action they choose to do so with regard to that entity or individual.

Mr. TOWNS. Right. You know, GAO indicated that there were an insufficient number of investigative personnel for adequate oversight. What is your opinion about that?

Ms. FISHER. Well, from our perspective with regard to criminal prosecutions—and this doesn't deal with the auditors, but just on the criminal prosecution side, which is what we're doing with regard to the task force—we've had a tremendous amount of support from the Inspector Generals with their investigators and from the FBI with their investigators and Postal and Secret Service. So we have not seen that there has been a need for additional investigators to root out the fraud at this point. Whether that changes in the future, I don't know. And as to oversight, that's a different issue.

But to investigate criminal referrals of fraud and to make sure that those get prosecuted, we have not seen that we need more resources in that area right now.

Mr. TOWNS. Right. One more question, Mr. Chairman.

Since the majority of the money for rebuilding is ahead of us, have you been participating in the establishment of internal controls and regulations for future contracts? Have you been involved in that at all?

Ms. FISHER. Not from the contracting perspective because that's something, again, more targeted toward the people that actually give out the contracts. But what we have done is we've met with, for example, HUD, because of the money that they're going to send out with regard to anti-fraud programs that they might have and to talk to them about what can prevent fraud from happening in the future. And we've been training auditors and investigators on what red flags to look for in contracts. So they know, when they see fraud or something like that in the contracts, that they refer it immediately to the task force so we can look at it from a criminal prosecution perspective.

Mr. TOWNS. Right. You know, I feel better with that, because I was thinking that they would talk to you, I mean, before moving forward. I mean, it seemed to me that—you know, I envision this as a very serious problem.

Ms. FISHER. I agree.

Mr. TOWNS. I mean, this is something that I think one cannot imagine in terms of how big this actually is, and that in order to put together a program to make certain that we're sort of on top of it, I think everybody has to talk to everybody. And so that's the reason why I was hoping that, you know, there would be this kind of contact, the fact that they would even call you before even thinking about a contract even going out, to get your input in it as well and because—you know, maybe some of the stuff we are hearing

is not true, but if there is enough of it out there that is true and that we need to try to do whatever we can to prevent it.

So, Mr. Chairman, I yield back.

Mr. PLATTS. Thank you, Mr. Towns.

The challenge here is different in the size and the scope of the area and the number of individuals impacted, but certainly is similar in the impact to those who were suffering losses from the hurricane, as with September 11th. Were there lessons learned that you took from September 11th that you found did work in this, a natural disaster versus a terrorist attack? Or ones that did not work well, good or bad?

Ms. FISHER. Well, I think that the agencies certainly learned a lot of lessons about contracting and things like that. But from a Department perspective, I think what we learned and why we did the task force in this manner is that a coordinated effort with the mission to root out fraud would be the way to go, where everybody's talking to each other and coordinating, and really being aggressive on the fraud. So we stop the schemes, hopefully, before they happen and where we don't, people are going to be prosecuted for it.

Mr. PLATTS. One of the issues we are going to talk with the IGs in the second panel, a specific area, I believe it is Mississippi, and their approach of guarding against fraud is that once the check is issued, that they cede oversight—you know, the money has been paid lawfully and what happens then. I think the approach of the Federal Government through our IGs and HUD is that we want to make sure that the actual outcome that is being paid for is achieved.

Is there a role that you play in trying to get, in this case a State that has, I think, been very proactive, Mississippi, and with the Governor's leadership, but to encourage them to look to maybe take a different approach? Or is that more on the IG side?

Ms. FISHER. Well, it is, but we have talked with Mr. Donohue, that I think you're going to hear from, about whether our expertise from a prosecution standpoint could be helpful in training some of the State officials that are going to be overseeing this amount of money that's coming from the Federal Government through the State. So we've certainly offered our expertise in that regard.

Mr. PLATTS. But not as much in the kind of, say, negotiation or interaction with the State to get them to take a different approach of when they will stop their oversight? That is not, probably, within your office?

Ms. FISHER. No, unfortunately, I don't think that—it's probably a little bit outside of my lane. But I'm willing to help in whatever it is I can help with. Because, you know, again, the Attorney General has been so committed to this program from the very beginning and has really directed me to do whatever I can to stop this fraud from happening.

Mr. PLATTS. That, I think, is—your story and the story of the IGs is one of those—the good and the bad, the unfortunate or the bad, is that in this terrible natural disaster, there are people trying to take advantage of, really, their fellow citizens, because money that could be going to help those in need being fraudulently given to others. But the good is the efforts of—you know, the number of

calls that have come in and people reporting the fraud to the hotlines, to the command center, and then the coordination of your Department and the other agencies and departments to uncover it and hold those accountable who have engaged in fraud and, by sending a very clear message, prevent others from maybe doing what they would otherwise do. But I guess it's human nature, that even in difficult times people are looking to take advantage of others.

Ms. FISHER. Yeah. It's heartbreaking, but it's true.

Mr. PLATTS. Mm-hm.

On the data base, one of the other things I wanted to followup is besides the current or possible needs for changing with the various acts that are already in the books is the National Directory of New Hires. Is that something that from your law enforcement/prosecution standpoint, having better access to that—or across-the-board, all the agencies—would be helpful? Is that an example of something we should be looking at?

Ms. FISHER. You know, I'd have to talk to the investigators and get back to you on that question. I'm not sure.

Mr. PLATTS. OK.

Kind of maybe a broad wrap-up is just the most important lessons that you've found we've learned from this. And we certainly don't want to have the need to repeat this type of operation, especially of this magnitude. But what are the most important lessons we should take from the first 8 months of this oversight and recovery effort, both good and bad? Again, what we should make sure we don't repeat or, you know, Congress should be very cognizant of, whether it is in the way we funded the oversight or anything that you have seen?

Ms. FISHER. Well, I think that from a perspective of how the money goes out, again, that probably is best to the Inspector General community as far as the oversight and the contracting and the benefits. Because I think there was a real need get money to people quickly, and that was the primary importance, to save people and to get them the money that they needed to survive, for their families. And with that, unfortunately, we saw a lot of people that were trying to scam off the top of that.

But I would say this, from a perspective of what's happened over the last 8 months. A good lesson is that law enforcement and the IG community can really come together for one mission together and be successful when we work together. And when you multiply your force in this way and share data and resources in this way, the results really can be incredible.

Mr. PLATTS. I think that is coming clear from the prosecutions that you are pursuing and the success you are having in deterring and prosecuting the fraud that has occurred.

Actually, I do have one final question, to ask if you are able just to expand on an issue that—are you OK?

Ms. FISHER. Yes.

Mr. PLATTS. We don't want to lose you here at the witness table. We need you. [Laughter.]

Ms. FISHER. Back in September, in response to legislation introduced in the Senate, S. 1738, Assistant Attorney General Moschella regarding transferring kind of this special IG for Iraq to a special

ID, and there was an issue raised about the constitutionality of that. Are you able to expand on that opinion?

Ms. FISHER. No, not at this time. I can look for that opinion and I can certainly get back to you. It wasn't coming from the Criminal Division, I don't think. It was a constitutional issue that probably came from our Office of Legal Counsel.

I will tell you that we also work for the Special IG for Iraq, SIGIR, and we've done some cases in that regard with regard to bribery relating to the contracts in Iraq, and they've been doing a great job there.

But as to the Inspector General community here, they really have banded together. I mean, their PCIE meetings, which I attend or somebody from my staff attends, just amazing as far as their proactive ideas on how to go forward. So I think that process seems to be working from my perspective.

Mr. PLATTS. I share that. With Iraq, there is a very different scenario and the funds being funneled through, really, one channel, whereas here, as will be represented by our second panel, the amount of funds that are going through so many different departments and agencies, and the expertise we have on all those are ready. To try to recreate that in a single IG, I think, would be very, very challenging to do and not the most productive in the—not in the best interests of the American taxpayer.

And I think what is important and I think is a great message that you shared today and we have seen the benefit of in the last 8 months is the Attorney General in creating the task force, and your leadership of the task force in bringing all the entities together, is really having great success on behalf of the American people and especially those who are in need. Because, you know, as generous as the American public is, there still is a—there is not an unlimited sum of money out there. So ensuring that it is truly expended for those in need and not in a wrongful manner is really important. And as we go forward, as you have referenced, those dollars are going to increase as we get into the rebuilding and some of the large-ticket items, infrastructure and the efforts that are really going to be critical to the Gulf Coast recovering fully in the years to come. So we can appreciate your efforts.

Mr. Towns, did you have anything else?

Mr. TOWNS. I just have one other question.

You know, I am concerned about the coordination between the different agencies and law enforcement in terms of the local level, of course the State, whoever might be involved in it. Because we hear all kinds of stories, you know, about duplication. I have even heard some stories where the investigators have tried to lock each other up. You know, I mean—so is this exaggerated or is there a need for additional coordination? I am really thinking the fact of the possibility of just wasting money sometimes in that process if there is not the kind of coordination and communication that is necessary.

Ms. FISHER. Well, and that's exactly why we have this coordination down at the command center in Baton Rouge, so we de-conflict investigations and we do not waste resources, that we group ourselves together in the most efficient way to prosecute this fraud.

I've not heard stories about duplication in the Katrina fraud effort at all, or wasted resources, and I am very hopeful that we do not have that because of the coordination that we put in place.

Mr. TOWNS. So that is even with the State and local folks that might be involved once they——

Ms. FISHER. Well, we certainly coordinate with the State and locals because they are members of the task force. So we're constantly discussing that with them back and forth. I can't say that we're perfect on the State and local level, and I don't know how the State and locals interact with each other with regard to these investigations or other investigations. But with regard to the fraud investigations, I am aware of no problems or wasted resources or duplications of efforts that have come to my attention.

Mr. TOWNS. The last question on that issue: Do you have adequate resources?

Ms. FISHER. Well, I think that we have asked for some additional resources with regard to the Hurricane Katrina Fraud Task Force, with regard to prosecutors and with regard to some of the investigators. But right now we've been blessed with the commitment of the Inspector General community and the FBI, Secret Service, Postal, and other law enforcement because they've assigned agents to the command center, they've assigned people at headquarters to follow this anti-fraud effort. So we are having a great deal of people that we have resources to investigate and look after this fraud.

From a prosecution standpoint, we've got 94 U.S. Attorney's Offices that have been directed by the Attorney General to watch out for this fraud and that, when they see it, they're to have zero tolerance. And they've been fabulous in stepping up to the plate, and that's why we've had prosecutions from Florida all the way to California.

Mr. TOWNS. Thank you very, very much.

Ms. FISHER. Thank you, sir.

Mr. TOWNS. Mr. Chairman, I yield back.

Mr. PLATTS. Thank you, Mr. Towns.

And one question on the additional resource request, I think that is in the supplemental along with the IG? Is that correct?

Ms. FISHER. Yes.

Mr. PLATTS. And an example of that coordination is, during our visit, the Gulf Port Mississippi Center, the convention center there, is visiting with Federal officials and then getting over with a private contractor doing the audit, you know, the fraud prevention for the State of Mississippi——

Ms. FISHER. Right.

Mr. PLATTS. And it was a very impressive operation and it was clear the coordination between the Federal and State was very evident as well. It kind of goes to that, not just within the Federal Government, but Federal and State working hand in hand. And that was, as I say, very good to see that the coordination in a sense was occurring.

But Assistant Attorney General Fisher, we, again, appreciate your testimony, appreciate your work, and look forward to continuing to coordinate with you and your staff as we go forward.

Ms. FISHER. Thank you so much.

Mr. PLATTS. Thank you.

We will take a brief recess as we get the second panel set up.

[Recess.]

Mr. PLATTS. We reconvene the hearing. And again, I appreciate our second panel of witnesses being with us. We have Matt Jadacki, Special Inspector General for Gulf Coast Hurricane Recovery with the Department of Homeland Security; Hon. Ken Donohue, Inspector General for the Department of Housing and Urban Development; Mr. Thomas Gimble, Principal Deputy Inspector General at the Department of Defense; and the Hon. Eric Thorson, Inspector General of the Small Business Administration.

We echo the words of thanks for your being part of this hearing as well as for the efforts of you and your staffs day in and day out in helping to both safeguard the American public's hard-earned tax dollars that they send to Washington and also your efforts in helping to promote effective, efficient programs within the Federal Government, not just about guarding the dollars but trying to make sure they are efficiently and wisely used in that in the end the intended purpose of the various Federal Government programs achieve the best outcomes as possible for the American public.

Now that I have you all seated, I have to ask you to stand to be sworn in.

[Witnesses sworn.]

Mr. PLATTS. Thank you. You may be seated. The clerk will acknowledge that all witnesses answered the oath in the affirmative.

We are appreciative of your written testimonies that you have submitted and look forward to your opening statements here. We are going to have, I think, 6 minutes on the clock. Because we have four of you and want to try to get to questions with all four of you, try to stay close to that, but if you need to go over some, we understand. Again, appreciate your being here.

Mr. Jadacki, if you would like to start.

STATEMENTS OF MATT JADACKI, SPECIAL INSPECTOR GENERAL FOR GULF COAST HURRICANE RECOVERY, DEPARTMENT OF HOMELAND SECURITY; KEN DONOHUE, INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; ERIC THORSON, INSPECTOR GENERAL, SMALL BUSINESS ADMINISTRATION; AND THOMAS GIMBLE, PRINCIPAL DEPUTY INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

STATEMENT OF MATT JADACKI

Mr. JADACKI. Thank you, Mr. Chairman, Ranking Member Towns. My role here is twofold. One, I work for the Inspector General's Office at the Department of Homeland Security. I'm responsible for reviewing, overseeing the Katrina and other disaster activities within the Department. But I'm also in the role of facilitating and coordinating the efforts of the other Federal Inspector Generals throughout the Federal Government. So I'll talk briefly about some of the coordination efforts that you mentioned in your opening remarks and some of the things that Alice Fisher talked about. And I'll get specific briefly and talk about some of the things I'm working on within the Department of Homeland Security.

On August 29th last year, Hurricane Katrina hit. I worked for FEMA for a number of years, and by far it was the most catastrophic event I've ever witnessed. The number of people displaced, hundreds of thousands of people, were literally going to every single State in the Union and in some territories. The area of devastation is about the size of the United Kingdom, and the amount of debris, about 63 million cubic yards of debris, is just enormous.

Congress did act quickly, providing through three supplementals so far $85 billion. The bulk of that early on went to FEMA and, subsequent to that, to a number of other Federal agencies represented by the Inspector Generals we have sitting here.

FEMA initially, as a coordination agency, tasks other Federal agencies to do a lot of the response work. For instance, they will task the Corps of Engineers to do debris removal, provide water, ice, some of the immediate needs for citizens, as well as other Federal agencies, too. About $8 billion of the money FEMA initially received was tasked to other Federal agencies for various types of jobs.

Early on, Inspector General Skinner realized that this would simply overwhelm the DHS Inspector General's Office, so he coordinated through the PCIE, and the Homeland Security Roundtable became the Hurricane Katrina Roundtable, where a number of IGs participated. And they agreed at that roundtable that they would take hold of this thing, they would provide the oversight that was necessary. Money that was provided from FEMA DHS to other Federal agencies, other Inspector Generals have agreed to cover those, whether it's a mission assignment, for contract, things like that, in many cases without additional resources. So they really stepped up to the plate. A lot of coordination going on with the Department of Justice, as Alice Fisher's testimony just went through.

We have been diligently providing information to the Hill because we want to be full and open about the types of things that we're providing and overseeing. For a while, we were providing monthly statistical reports on the number of audits, reviews, arrests, investigative audit activity. We did produce a 90-day report, which many of you have read, that provided a lot of information. And just about 2 weeks ago, we produced a more comprehensive semi-annual report that we will continue doing as long as there is a need and interest by Congress and the American public and that information is available.

Through the PCIE we realized that we wanted to be sort of consistent across the board with a lot of the work that we're doing. So we established a number of subgroups to handle a lot of common activities that are common to many of the Inspector Generals. We established a group dealing with contract issues because we wanted to make sure, as we're reviewing contracts, other agencies that receive it and other Inspector Generals reviewing it will be reviewing on a consistent basis doing risk assessments.

We established a subgroup that dealt with individual assistance issues, because as you know, not only FEMA has programs deal with individual assistance but there's a number of Federal agencies that provide, for instance, housing and things like that and, you know, at several of the meetings we started sharing information. One of the goals is to try to find duplication, replication, and, you

know, where FEMA is providing assistance, and somebody else doing that. Social Security was a big player. Labor is a big player with their unemployment assistance. So we're trying to coordinate that, and it's been pretty successful.

Again, I talked about mission assignments. We're working with other Federal agencies that receive money to audit the mission assignments, what we're looking for in that particular area. And again, we have a separate group dealing with the Privacy Act issues, data sharing type things like that.

So that's sort of a snapshot of what we do on general terms, and my colleagues here will talk more in detail about what they're doing in their particular agency.

What I want to do for a couple of minutes is really talk about, within DHS, what's going on with our oversights, some of the types of things we're finding there. Some of the numbers are staggering.

FEMA has obligated so far, through the beginning of this month, $34 billion for disaster assistance. About $13 billion is for human services alone. That's providing individual assistance, providing housing, providing rental assistance to folks, providing other needs and those types of things. That also includes some money for some contractors to stage mobile homes, travel trailers, and those types of things. So there's quite a bit of money early out.

What's going to happen at this point is that as the individual assistance program fades out, we're going to get some of the bigger dollar amounts with the public assistance programs that are traditionally a larger part—rebuilding the schools, the bridges, the roads, and those types of things. So we're gearing up for the money going in through that.

I mentioned earlier about $8 billion went to other Federal agencies. We're in the process of having the other IGs take a look at that and accounting back for that.

FEMA awarded so far over 3,500 contracts worth over $5 billion. We've issued a number of reports on contracts, and we're finding some issues with that. Early on, there was a number of contracts that were basically a verbal handshake, a lot of sole-source contracts worth hundreds of millions of dollars. What we're trying to do is be very proactive and not wait till the end, when the contracts are finally completed, to go back in. So we're issuing a series, and we've done a series, of what we call Management Advisory Reports, where we actually provide recommendations early on so management can take immediate corrective action to correct those.

Our staff is currently about 100, including audits investigators, administrative staff, looking at a lot of different issues. I've mentioned we've completed 40 audit reports. We have a number of reports in progress already, some of the longer-term performance reviews. Our goal, again, is to be very proactive, but we're also trying to make some meaningful recommendations before next hurricane season, which is right on our doorstep.

We've had over 4,500 hotline complaints. There are over 400 open cases. We've 117 arrests, 140 indictments, and 40 convictions. We've questioned, to this point, over $100 million, and we've had over $4 million of funds put to better use.

We're working closely with the Government Accountability Office. I can tell you, at our regular PCIE meetings on Katrina are

widely attended. GAO attends almost every single meeting, as well as the Department of Justice. And we still have standing room only from all the other Inspector Generals Offices, from both the PCIE and ECIE community.

So 8 months after the disaster, the interest is still there and it's still very intense.

We will be reviewing in the future transitional housing. Many folks have heard some of the horror stories about the manufactured homes in Hope, AR. We uncovered that and put out an immediate report on that. There are issues on travel trailers, hotels—people staying in hotels. Alice Fisher mentioned some of the fraudulent activity in some of the hotels that we're looking at. We're looking at property management. FEMA bought tons of property, as well as other Federal agencies.

Erroneous payments is a big issue. We will be taking a close look at that, because we did find that a lot of controls were dropped or overridden early on in the disaster and that did result in a significant number of erroneous payments and we're still trying to get a handle on that.

A lot of funding came through international donations. FEMA's administering about $66 million in that program. We're taking a close look at that. And we are working closely with the purchase cards with GAO.

We plan to continue. We know this is a long-term ongoing effort. We're expecting at least 3 to 5 years, probably longer, based on some of the work that we've done in other disasters. And we will continue our diligent and aggressive oversight.

This concludes my opening statement, Mr. Chairman, and I welcome any questions. Thank you.

[The prepared statement of Mr. Jadacki follows:]

STATEMENT OF MATT JADACKI

SPECIAL INSPECTOR GENERAL

GULF COAST HURRICANE RECOVERY

OFFICE OF INSPECTOR GENERAL

U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE THE

GOVERNMENT REFORM SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY

U.S. HOUSE OF REPRESENTATIVES

MAY 10, 2006

Mr. Chairman, Congressman Towns and Members of the Subcommittee, thank you for the opportunity to be here today to discuss the federal Inspectors General oversight role in preventing waste, fraud, and abuse after Hurricane Katrina.

As noted in recent reports issued by the Select Bipartisan Committee of this House, the White House, and most recently the Senate, the federal response to Hurricane Katrina identified a number of weaknesses and shortcomings that had a direct impact on the lives of many citizens. However, there are some bright spots in the federal response. One in particular, the Offices of the federal Inspectors General, I will share with you today.

I will focus my remarks on three areas:

- The Role of the federal Inspectors General;
- Key Oversight Accomplishments of the Inspector General Community; and
- Future Oversight and Accountability Structure.

As I lay out the work of the Inspectors General, and you read through the work that is being conducted, it is important that I point out the unique coordination that is taking place. The coordinated oversight efforts are not only unique to the Inspector General Community, but we would argue to the federal community as a whole. This model is effective, efficient, and working well.

The Role of the Federal Inspectors General

Immediately after Hurricane Katrina devastated the Gulf Coast region, federal response and recovery efforts began on an unprecedented scale. The federal government dedicated billions of dollars to address the widespread devastation, upheaval and dislocation. With such a massive commitment of government resources and record amounts of federal funds being spent; the opportunity for fraud, waste, and abuse is rife. Given the scale of this disaster and the need for oversight, the federal Inspectors General (IGs) as a community stepped up to the plate and conducted an unparallel oversight and stewardship effort. The oversight and stewardship efforts continue today.

Congress appropriated $85 billion to meet the needs of reconstruction. In addition, various foreign governments donated approximately $100 million to hurricane victims. The Federal Emergency Management Agency's (FEMA) Disaster Relief Fund received $36.5 billion and $1.5 billion for Hurricanes Rita and Wilma. As of March 31, 2006, FEMA issued $7 billion in Hurricane Katrina related mission assignments to other federal agencies. The third supplemental also provided direct allocations in the total amount of $28.6 billion to other federal agencies for hurricane related recovery efforts.

As the federal government obligated these large sums to response and recovery efforts, the federal IG community stepped in to provide oversight and stewardship. They were a natural fit to provide this needed effort. The coordinated oversight of the federal IGs

came about through their work on the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).

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 a forum for the IG community to plan and discuss hurricane recovery oversight. The Roundtable members meet regularly to share information and collaborate. Each participating IG provides oversight of federal dollars for their respective agencies whether the funding is from a direct appropriation or through a mission assignment from the Federal Emergency Management Agency (FEMA).

The PCIE/ECIE offers the capacity needed for consistent reporting and the preventive interaction to oversee the billions in recovery dollars. The result is 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. Therefore, greater oversight is taking place and oversight efforts are not being duplicated.

Coordinated through the PCIE/ECIE, the IG community is ensuring that audit and investigative efforts and resources are focused on disaster-related issues. Taking the lead in this effort is Inspector General Richard L Skinner. As the chair of the PCIE/ECIE Homeland Security Roundtable and Inspector General of the Department of Homeland Security (DHS), Inspector General Skinner is coordinating the PCIE/ECIE audit and investigative activities. Under Mr. Skinner's leadership, federal IG staff have been working tirelessly to ensure that: (1) agency internal controls are in place to prevent fraud, waste, and abuse; (2) IG investigative activities are coordinated with the Department of Justice's Hurricane Katrina Fraud Task Force; (3) agency stewardship plans for hurricane relief activities are in place and operating as intended; and (4) the IG community is executing its hurricane relief oversight efforts in a coordinated fashion to ensure resources are utilized as efficiently and effectively as possible.

In addition, the PCIE/ECIE established a central hotline to handle reports of fraud, waste, and abuse throughout the Gulf Coast. The Hurricane Relief Fraud Hotline supports all federal agencies involved in the recovery efforts. Initially, the Department of Defense Office of Inspector General served as the operator of the Hotline on behalf of all the Offices of Inspectors General (OIGs). In April 2006 operation of the hotline was turned over to the Department of Justice Joint Command Center in Baton Rouge. The Hotline, which has reported 14,385 calls through the end of March 2006, functions as a channel for tracking incoming complaints and allegations of wrongdoing.

Additionally, 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 dishonest individuals and contractors trying to take advantage of the disaster relief

efforts. The overall goal is to stop people who seek to illegally take the money that is intended for the victims of the hurricanes and the rebuilding of the Gulf Coast region.

In addition, within the Department of Homeland Security, Inspector General Skinner created a separate Special Inspector General for Gulf Coast Recovery. 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.

Key Accomplishments

The OIGs have completed a number of audits and investigations, which will greatly benefit the federal government's hurricane relief activities. The overall audit effort is coordinated with the Government Accountability Office (GAO). Overall the IGs have committed approximately 600 personnel to recovery oversight.

However, the scope of hurricane relief projects to be reviewed is formidable. As of March 31, 2006, the IGs reviewed over 6,665 contracts with a total value of $10 billion. My office reviewed a total value of $5.38 billion in contracts.

Moreover, with the costs of recovery so high and the great need for accountability, many IGs involved in hurricane relief oversight have significantly expanded their activities. As of March 31, 2006, approximately 465 government auditors were devoted to Hurricane Katrina contract reviews. To date, they have completed 40 management and performance reviews and 246 contract reviews. Many of these reviews represented audits of multiple award contracts, grants, mission assignments, and other funding vehicles.

On April 30, 2006, we published our semi-annual report entitled, *PCIE/ECIE Oversight of Gulf Coast Hurricane Recovery, A Semiannual Report to Congress.* The report provides a summary from each OIG of the audit work of their respective federal department or agency involved in the rebuilding. According to the OIGs, many of their recommendations are already being implemented. Additionally, many of these recommendations are designed to not just address errors or shortcomings in the federal

response, but to set the stage for more efficient and cost-effective responses to future disasters.

DHS OIG completed reviews include:

- The transitional housing contract with Corporate Lodging Consultants;
- The acquisition of cruise ships for evacuee transitional housing;
- The purchase of mobile homes and modular homes at Hope, Arkansas and Red River Army Depot, Texas;
- The use of armed guard services provided by Blackwater Security Consulting, LLC; and
- Debris removal contracts entered into by the City of Biloxi, Mississippi.

These are just a sample of the reviews completed by our office. The reviews completed by other OIGs' are too numerous to list.

However, a sample of their work includes:

- The Department of Energy's (DOE) review of the efficacy of its response under the National Response Plan;
- DOJ's audit of 33 Hurricane Katrina disaster relief grants with a total value of over $5 million;
- The Department of Labor's (DOL) numerous audits of the implementation of National Emergency Grants awarded to several states;
- The Department of Transportation's (DOT) audit of the internal controls over the Emergency Disaster Relief Transportation Services contract;
- The Department of Veterans Affairs' (VA) audit of alleged mismanagement of VA's permanent change of station travel program;
- The Environmental Protection Agency's (EPA) audits of its and States' efforts to assess and restore public drinking water supplies after Hurricane Katrina;
- The Treasury Inspector General for Tax Administration's (TIGTA) audit work that determined the Internal Revenue Service's planning for the 2006 tax-filing season is on course, but unique challenges exist for the toll-free telephone operations and Taxpayer Assistance Center Program for disaster-related issues;
- The United States Postal Service's (USPS) audit work that concluded the Postal Service adequately safeguarded employees, reestablished mail processing, redirected mail under tight time constraints, and managed emergency purchasing for Hurricane Katrina.

Our Semiannual Report gives in-depth information of the above audits as well as provides summaries of each OIG's on-going and planned audits. As of March 31, 2006 government auditors are conducting 111 management and performance reviews and 289 contract reviews for a value of $6 billion of contracts awarded.

A sample of our on-going or planned reviews include:

- A review of the major contracts awarded by FEMA and the Joint Field Offices;
- A review of public assistance projects;
- A review of FEMA's mission assignments;
- A review of FEMA's sheltering and transitional housing;
- An audit of property management controls and practices at FEMA in relation to accountable property purchased;
- Our auditors are preparing an inventory of federal disaster assistance programs and assessing their potential for duplication of benefits; and,
- Our auditors will assess how effectively FEMA managed flood insurance in the wake of Hurricane Katrina.

As for other OIG efforts, following is a sample of on-going and planned audits:

- Department of Education auditors are assessing the adequacy of Department controls over funding for the Restart, Emergency Impact Aid, and Homeless Youth programs,
- DOE auditors are determining whether the Strategic Petroleum Reserve effectively met energy security requirements as part of its response to Hurricane Katrina and Rita,
- Department of Health and Human Services (HHS) auditors are determining whether HHS is appropriately accounting for the $396.3 million of hurricane related spending under mission assignments from FEMA,
- DOJ auditors are determining whether the $5.2 million sole source contract for roof repairs at a Texas correctional facility had adequate justification and was awarded on an arm's-length basis with reasonable costs,
- DOL auditors are conducting numerous audits to determine whether individuals are receiving dual benefits, e.g. benefits from several states or from several programs, such as unemployment benefits and public service employment payments, or are fraudulently receiving benefits so that such payments are terminated and appropriately recovered,
- DOT auditors are determining whether the affected States have DOT funds dedicated to congressionally directed highway projects that are no longer needed and, if so, whether the funds can be redirected for hurricane reconstruction projects,
- TIGTA auditors are reviewing the agency's preparedness for and responsiveness to the needs of national banks, thrifts, savings and loans, and their customers during and after the hurricanes,
- VA auditors are conducting an audit to assess Gulf Coast hurricane management controls over contract and procurement activities, controls to reestablish healthcare and benefit delivery to veterans, and quality-of-care issues resulting from the evacuation,
- EPA auditors are reviewing EPA's Hurricane Katrina-related expenditures to prevent and detect fraud, waste, and abuse, and to ensure that the EPA is safeguarding assets to prevent or minimize loss or theft,

- Federal Communications Commission auditors are planning an audit to examine the $211 million recovery assistance program for the Gulf Coast that is funded by the Universal Service Fund,
- General Services Administration (GSA) auditors are auditing the effectiveness of GSA's response to Hurricane Katrina, in which GSA has had a central role in procuring approximately $1 billion in equipment and services used by FEMA,
- National Aeronautics and Space Administration (NASA) auditors are determining whether the agency has established the necessary internal controls to manage Hurricane Katrina recovery and reconstruction efforts, including rebuilding the Michoud Assembly Facility and the Stennis Space Center, supplemental funding, and procurements,
- Social Security Administration (SSA) auditors are reviewing the status of SSA's service delivery to the individuals and beneficiaries affected by Hurricanes Katrina and Rita, and are also assessing the agency's plans to ensure payments made under emergency procedures were appropriate and properly safeguarded,
- TIGTA auditors are reviewing numerous tax compliance issues, including oversight of tax-exempt organizations, IRS examination and collection functions, IRS disaster relief codes and associated freezes, and other 2006 filing season legislation,
- United States Department of Agriculture (USDA) auditors are conducting numerous audits, including reviews of various hurricane relief initiatives, including barge movements, grain storage, and Natural Resources Conservation Services, Emergency Watershed Protection Program, Dead Animal Debris Disposal Project, and Farm Service Agency Emergency Conservation Program. They are also reviewing controls over housing funds provided to disaster victims and the agency's oversight of the Disaster Food Stamp Program, and
- USPS auditors are reviewing the Postal Service's replacement and repair of facilities affected by Hurricane Katrina, the Postal Inspection Service's procurement and response efforts, and the Postal Service's emergency preparedness.

A complete list of the work as well as recommendations and findings of the reviews named above may be found in our semiannual report.

Additionally, the OIG coordinated work through the Katrina Fraud Task Force is having great success. Each of the OIGs investigates potential violations of law related to hurricane recovery efforts in the Gulf Coast region. Where concerns arise, criminal investigators are assigned to determine whether there has been a violation of law. Members of the PCIE/ECIE submit monthly reports listing the key details about their investigations. As of March 31, 2006, approximately 86 government investigators were devoted to various investigative activities. Since the hurricane relief and recovery process was initiated, the IG investigative community has reported 174 indictments, 152 arrests, and 48 convictions. In addition, investigative teams were deployed to each of the IG Joint Field Offices in Alabama, Louisiana, and Mississippi to provide technical assistance to FEMA, State, and local officials, including respective federal, State, and local law enforcement agencies and prosecutors as part of a "fraud awareness" initiative.

Additionally, as of March 31, 2006, members of the PCIE/ECIE have reported 785 open cases of potential criminal activity. Each of the IGs investigative staff also continues to process hotline complaints. As of March 31, 2006, the PCIE/ECIE Katrina Fraud Hotline received 9,664 complaints and the IGs received 4,721 complaints directly on their own offices' IG hotlines.

Lastly, on March 31, 2006, the DHS OIG issued a report entitled, *A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina,* which reviewed FEMA's response to Hurricane Katrina and proposed 38 recommendations. The 38 recommendations, grouped into three general categories include, better defined roles, greater efficiency, and more training.

My office also continues to aggressively conduct audits designed to identify and address fraud, waste, and abuse as early as possible.

Future Oversight and Accountability Structure: Do the OIGs have the Needed Resources to do their Job

The current model being used by the PCIE/ECIE Homeland Security Roundtable has been very effective. DHS OIG and other federal agency IGs use funds from their base operating budgets to plan and participate in the PCIE/ECIE activities. In effect, they have to cannibalize from other audit programs to find resources for their planning and participation efforts in Katrina oversight. In order to fully commit to oversight and stewardship efforts, a greater priority must be placed on institutionalizing the role of PCIE/ECIE in these types of government-wide activities.

Additionally, to effectively address oversight, federal interagency data sharing and collaboration are a must. However, data-sharing arrangements between FEMA and other federal agencies to safeguard against fraud and promote the delivery of disaster assistance are not in place. Critical tasks, from locating missing children and registered sex offenders to identifying duplicate assistance payments and fraudulent applications, have all been hindered because mechanisms and agreements to foster interagency collaboration did not exist prior to Hurricane Katrina.

FEMA could enhance its internal controls if it had in place data matching agreements with other federal agencies such as the Social Security Administration, the Internal Revenue Service, and the Postal Service to verify names, addresses, and social security numbers of individuals applying for disaster assistance. Interagency data sharing, and pre-arranged data sharing agreements, should be prioritized to ensure a proactive approach to mitigating fraud, waste, and abuse, while simultaneously enhancing the efficiency, effectiveness, and economy of federal initiatives.

In other data-sharing initiatives, the U.S. Department of Housing and Urban Development (HUD) and FEMA are presently working to establish a computer-matching

program to detect excessive or insufficient housing assistance. We believe that similar arrangements with the Social Security Administration, Small Business Administration, Internal Revenue Service, Postal Service, and others, would be beneficial to detecting fraud and facilitating the delivery of disaster assistance to eligible applicants, particularly if the data can be shared in real-time.

We are currently reviewing data sharing processes and procedures that can be enhanced to promote effective interagency collaboration. We believe agencies should put in place data sharing agreements to facilitate response, recovery, and oversight in conjunction with an emergency declaration. This would not only facilitate the delivery of assistance to disaster victims, but also would be a major factor in preventing fraud, waste, and abuse in FEMA's disaster relief programs.

Conclusion

In closing, as I have discussed today although there have been noted weaknesses in the federal government's response to Hurricane Katrina; there are some bright spots. The Offices of the federal Inspectors General, in particular, have stepped up to the plate and worked together in an unprecedented manner.

Fortunately, the OIG community was well poised to address the need for oversight of the federal government's disaster response and recovery programs and operations. 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 benefits of the funds to be spent on response and recovery. Above all, our goal is to turn lessons learned into problems solved.

Table 1. Federal Allocations in Response to Hurricanes Katrina, Rita, and Wilma
(as of March 21,2006)

Major Issue Area	Funding Available *(in billions)*	Sub-Issue Area	Funding Available *(in billions)*	Description
I. Spending				
1. Temporary and Long Term Housing	$43.1			Grant and loan programs in FEMA, HUD, and USDA for temporary and long-term housing, flood insurance
		Flood Insurance Program	$18.5	Money available for premium payouts
		CDBG	$11.5	Community Development Block Grants for home and infrastructure repairs
		Temporary Manufactured Housing	$5.6	Trailers and mobile homes
		Temporary Housing and Home Repair	$4.9	Rental assistance and grants for repairing homes damaged by the Hurricanes
		Other	$3.6	Loan programs in FEMA, HUD, &USDA, and HUD, USDA grants
2. Emergency Response and DOD Spending	$23.3			Response by FEMA, DOD, and other agencies, as well as restoration of Federal facilities.
3. State and Local Response, Infrastructure Rebuilding	$13.7			FEMA, Transportation, and Corps of Engineers funding to restore Gulf Coast infrastructure, including levees, highways, and federal facilities.
		Levee repair and restoration	$1.6	Restore the existing federal levee system to its previous condition
		Coastal restoration	$.3	A federal-state coastal restoration plan to help weaken future storm surge
		Other	$11.7	All other FEMA, Transportation, and Corps of Engineers funding to restore Gulf Coast infrastructure
4. Health, Social Services, and Job Training	$3.1			Programs in HHS, Labor, and other agencies to address health, social services, and economic needs. Includes $2 billion from Reconciliation
5. Non-housing Cash Assistance	$2.6			FEMA grants and SBA loans covering needs beyond housing. Does not include full $3.2 billion of SBA loans approved to date.
6. Education	$1.6			Education assistance for impact of displaced students and higher education needs.
7. Agriculture	$.7			USDA funding for agriculture and timber losses, recovery, and conservation.
Allocated Spending Total:	*$88*			
II. Tax Relief				
1. Tax Relief	$8 billion			Gulf Opportunity Zones, charitable giving incentives, full deductibility of personal losses, and extended periods for replacing damaged property. Ten-year total is $11 billion.

Sources: Department of Homeland Security, Office of the Federal Coordinator of Gulf Coast Rebuilding; Katrina Hurricane Disaster Weekly Report (FEMA) for March 2, 2006; The White House, Regular Press Briefing on March 6, 2006; Bruce Katz, Matt Fellowes, and Mia Mabanta. 2006. "The Katrina Index." The Brookings Institution.

Mr. PLATTS. Thank you, Mr. Jadacki. We appreciate your statement.

Mr. Donohue.

STATEMENT OF KENNETH M. DONOHUE

Mr. DONOHUE. Good afternoon, Chairman Platts, Ranking Member Towns.

Once again, an area of our Nation has been hit by an unexpected disaster that has taxed the emergency services and redirected Federal Inspectors General toward assisting local government and overseeing the expenditure of a large amount of Federal money. Congress estimates that damage to residential structures in the affected Gulf Coast region will range from $17 to $33 billion.

To put the magnitude of that devastation in perspective from a HUD programmatic standpoint, in the Presidentially declared disaster areas, HUD's Federal Housing Administration Single-Family Insurance Fund insured more than 328,000 mortgages having an unpaid principal balance of $23 billion. FHA's multifamily program in the disaster area insured 859 properties comprised of 116,000 units with an unpaid principal balance of $3 billion. The hurricanes affected 79 Ginnie Mae issuers, causing Ginnie Mae to assess a $50 million risk of loss to its investment portfolio.

Moreover, assets of HUD's public housing authorities program suffered tremendous damage, affecting housing of almost 120,000 families. The photographs exhibited are like many shown in the media following the hurricanes; however, in this instance, they document damage to HUD-funded housing programs.

The one to the left, the St. Bernard Housing Development HANO program, that water was about 5 feet water line on the building. Numerous vehicles are flooded and destroyed, and yet there was no management or tenants onsite. The other units you see on the top right-hand side, approximately 3 to 5 foot water line on buildings. Extensive looting went on. Apparent total loss of all buildings. Again, no management or tenants onsite.

I bring your attention to the Abundance Square housing development. What you are looking at is a trailer in the middle of those houses. That was a rather recently built HUD program, and that trailer, if you look at it closely, you can see that there are markings on the second story of that building. In effect, that trailer floated about a mile inland, hitting both sides of that building, and it sat right in between those houses, to give you some idea about the water surge that occurred down in New Orleans.

In addition to these pre-existing HUD programs, the supplemental appropriations passed late last year allocated $11.5 billion to HUD's Community Development Fund for reconstruction efforts and $390 million to the Tenant-Based Rental Assistance Fund. The latest supplemental, currently under consideration, contains billions more to be appropriated to HUD for disaster assistance efforts. In addition, FEMA initially provided $79 million in funding to HUD for the Katrina Disaster Housing Assistance Program to help in relocating evacuee families. All told, HUD is now and will be receiving billions of dollars in new funding that will need strong monitoring and oversight.

The HUD Office of Inspector General's response to the Gulf States affected by Hurricanes Katrina, Rita, and Wilma was immediate and institutionalized based on lessons learned from our in-depth experience with the aftermath of September 11, 2001, in lower Manhattan.

We learned from our efforts that to be effective, your teams on the ground and at headquarters must be proactive rather than reactive. Although a basic concept, it is one that is key to the ability to make a real impact. This proactive posture extends to collaboration with State agencies.

To be truly effective, you must act in real time to have a deterrent impact, and we hope to have additional resources so that we can have that effect.

While we are engaged in overseeing these new disaster relief funds, we still have work on matters that are pending. Prior to Katrina, the Housing Authority of New Orleans [HANO], was in receivership and under HUD's control after a long stint on HUD's "troubled" housing authority list, contract list. Contracts and expenditures that occurred pre-Katrina must still be audited and analyzed. As to post-Katrina, we know from our past experiences that rehabilitation and reconstruction contracts set up with loose requirements are at a greater risk for fraud and that the sheer volume of transactions here will provide a rich environment.

We believe our oversight will show that the most effective way to proceed is that monitoring be constant, continuous, and at all the different levels of activity. At this point, States have drawn up action plans on how to administer and monitor Federal grant moneys.

The first State to submit their plan was the State of Mississippi, who met on several occasions with us to discuss their plan. From this meeting, we developed educational material. Homeowners applying for grant money will receive a HUD OIG fraud awareness bulletin in their grant application package.

As to the Mississippi plan, from an audit standpoint, oversight and monitoring of grant funds ceases after the State has issued "compensation" funds to the homeowner "to be used at the discretion of the homeowner."

We do not think that monitoring oversight should end at this phase, and we have remaining concerns about how a compensation plan that basically reimburses will spur the rebuilding of now blighted communities.

There are also continuing problems with the execution of data matching among Federal agencies. Our counsel is finalizing a protocol with FEMA in order to use this data for matching purposes, but we have encountered roadblocks nevertheless.

HUD OIG has undertaken a variety of activities and new initiatives relating to HUD disaster relief programs. My Office of Audit established an office for Hurricane Katrina oversight immediately after the disaster to prepare for the long process of recovery. Concurrently, an audit plan was developed and reviews in the disaster areas begun.

Initially, the office reviewed all HUD waivers to assure that statutory requirements were not waived. Currently the office is auditing management and marketing contracts.

My office investigation established the Hurricane Katrina Fraud Task Force to deal with HUD law enforcement issues.

The Office of Investigation has created a far-reaching fraud prevention program. Also, HUD OIG has created, as you see to the right, a Suspicious Activity Report [SAR], to be given to grantees and sub-grantees and other associations delivering disaster funds. As you can see from the exhibit, the SAR is a method of informing HUD OIG of suspected irregularities in the delivery of HUD program money.

In closing, I would like to thank the subcommittee for the opportunity to talk about this tremendous work we have accomplished since the onset of this tragic and trying event. Thank you.

[The prepared statement of Mr. Donohue follows:]

STATEMENT OF
KENNETH DONOHUE, INSPECTOR GENERAL
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY
UNITED STATES HOUSE OF REPRESENTATIVES
MAY 10, 2006

Statement of Kenneth M. Donohue
Inspector General
Department of Housing and Urban Development
Before the
Committee on Government Reform
Subcommittee on Government Management,
Finance and Accountability
United States House of Representatives
May 10, 2006

Good Afternoon Chairman Platts, Ranking Member Towns and Members of the Subcommittee. Thank you for the opportunity to address the Subcommittee on the important topic of the role of Inspectors General in preventing waste, fraud and abuse in the Gulf coast areas.

Once again, an area of our nation has been hit by an unexpected disaster that has taxed emergency services and redirected federal Inspectors General toward assisting local government and overseeing the expenditure of a large amount of federal money. Congress estimates that damage to residential structures in the affected Gulf Coast region will range from $17 to $33 billion.

Pre-Existing HUD Programs:

To put the magnitude of the devastation into perspective from a HUD programmatic standpoint, in the Presidentially-Declared Disaster Areas, HUD's Federal Housing Administration (FHA) Single-Family Insurance Fund insured more than 328,000 mortgages having an unpaid principal balance of $23 billion. FHA's multifamily program in the disaster area insured 859 properties comprised of 116,000 units with an unpaid principal balance of $3 billion. The Hurricanes affected 79 Ginnie Mae (Government National Mortgage Association) issuers, causing

Ginnie Mae to assess a $500 million risk of loss to its investment portfolio.

Moreover, assets of HUD's public housing authorities (PHA) program suffered tremendous damage, affecting housing of almost 120,000 families. The photographs exhibited are like many shown in the media following the hurricanes however, in this instance, they document damage to HUD-funded housing programs. The Housing Authority of New Orleans initially received a $21.8 million grant from the Public Housing Capital Fund reserve for the cost and repair of its public housing inventory pending a full damage assessment.

HUD's Office of Community Planning and Development (CPD) plans to reprogram existing funds of $380 million for the disaster areas. To expedite the process, CPD issued numerous waivers to streamline its grant programs including HOME Investment Partnerships, Emergency Shelter Grants, and Community Development Block Grants (CDBG).

Supplemental Disaster Funds:

The Supplemental Appropriations passed late last year allocated $11.5 billion to HUD's Community Development Fund for reconstruction efforts and $390 million to the Tenant Based Rental Assistance Fund. The latest Supplemental, currently under consideration, contains billions more to be appropriated to HUD for disaster assistance efforts. In addition, FEMA initially provided $79 million in funding to HUD for the Katrina Disaster Housing Assistance Program to help in relocating evacuee families. All told, HUD is now, and will be, receiving billions of dollars in new funding that will need strong monitoring and oversight.

HUD OIG oversight of post 9-11 efforts:

The HUD Office of Inspector General's response to the Gulf States affected by Hurricanes Katrina, Rita and Wilma was immediate and institutionalized based on lessons learned from our in-depth experience with the aftermath of the events of September 11, 2001. The Congress appropriated $3.5 billion in CDBG grants for New York and required that we semiannually audit and report on the expenditure of those funds.

We learned from our 9-11 efforts that to be effective, your teams on the ground, and at headquarters, must be proactive rather than reactive. Although a basic concept, it is one that is key to the ability to make a real impact. This proactive posture extends to collaboration. Rebuilding and redevelopment must happen cooperatively with state agencies that know their communities and citizens needs.

Inspectors General and law enforcement officials know they cannot prevent waste, fraud and abuse alone. Joint Task Forces combine agencies' assets, manpower, information technology, budgets, and other agency specialties to monitor expenditures and attack fraudulent and criminal activities.

To be truly effective you must continuously work to prevent waste, fraud, and abuse and must act in real time to have a deterrent impact and we hope to have additional resources so that we can have that effect. Some of the best practices we garnered from our experiences have become invaluable to us in this current effort, such as:

- Criminal investigators and auditors training state and local entities on how to uncover fraud, how to identify fraud indicators, how to retain necessary documentation, and how to make referrals to appropriate law enforcement;

- Participating in joint teams, such as grant fraud working groups and construction integrity teams;

- Setting up hotlines and information campaigns on how to report fraud; and

- Properly vetting contractors and subcontractors and creating a clearinghouse database, as well as systems to conduct employee background checks.

The essential reason why fraud and abuse is lessened in the lower Manhattan redevelopment programs is tied to Congress' requirement that HUD OIG engage in continuous proactive auditing and regular reporting of its results. Consequently, accountability was established early and the responsible use of tax dollars was ensured. With this added responsibility, however, Congress must ensure we have the resources to adequately undertake this new and labor-intensive mission. We are five years out from 9-11 and we are still dedicating audit and investigation resources to OIG activities there.

However, it is also important to understand the differences that exist between 9-11 and the Gulf Coast hurricanes ("Katrina").

From a reconstruction or rebuilding stance, Katrina is different from our 9-11 experience. With 9-11 there were only two major "pass through" entities (the Empire State Development Corporation and its subsidiary, the Lower Manhattan Development Corporation); there were fewer prospective grantees and subgrantees; there was a limited land area to consider; and the oversight activities were, therefore, more controllable. In all of these aspects, the Katrina disaster differs and, thus, makes oversight a much more arduous task.

The Housing Authority of New Orleans:

In addition to the influx of new Katrina funding, as stated above, the Department and HUD OIG must deal with a pre-existing, heavy New Orleans audit and investigative workload. Prior to Katrina, the Housing Authority of New Orleans (HANO) was in Receivership and under HUD's control after a long stint on HUD's "troubled" housing authority list. HANO had long been known as crime-ridden and plagued with mismanagement in the administration of its daily operations. Close cooperation will need to continue with the HUD OIG, the U.S. Attorney's Office and the Department regarding this housing authority.

HUD will be consumed with the job of resurrecting the devastated HANO. Contracts and expenditures that occurred pre-Katrina must still be audited and analyzed. The administration and disposition of previously appropriated funds must still be accounted for as well as the added emergency uses and the new disaster funding.

HUD OIG Concerns:

The new Congressional funding, grants in aid and CDBG money, will add to the opportunity of persons bent on defrauding the government and its rebuilding activities. We know from our past experiences that rehabilitation and reconstruction contracts set up with loose requirements are at greater risk for fraud and that the sheer volume of transactions here will provide a rich environment.

We believe that we may encounter various types of criminal vulnerabilities, such as:

- False Statements and Claims
- Theft or Bribery

- Tax Evasion
- Artificial Price Market Inflation
- Contract Fraud: Invoicing and Double Billing
- Embezzlement
- Bid Rigging
- Insurance Fraud
- Environmental Crimes
- Public Corruption
- False Payrolls
- False Appraisals
- Collusion; and
- Kickbacks

We believe our oversight will show that the most effective way to proceed is that monitoring be constant, continuous and at all the different levels of activity. Monitors should be concerned with the funds disbursement from the U.S. Treasury to state financial institutions; disbursements from the states to the subgrantees; invoices and paperwork of the grantees and subgrantees; quarterly reports for award and expenses; and quarterly reports on fraud prevention.

Due to the size and scope of the devastation, the Congress has involved the states in the oversight and auditing of federal grant money to homeowners affected by Katrina. To accomplish this activity, states have drawn up action plans on how to administer and monitor federal grant monies.

The first state to submit their plan was the state of Mississippi through their agency, the Mississippi Development Authority (MDA). The MDA met on several occasions with the HUD Office of Inspector General to discuss their plan and to be briefed by our officials on the potential for scams and how to deal with application fraud, such as, false statements, identity theft and false

documents. In addition, as part of our education efforts, the HUD OIG also briefed MDA contract appraisers hired to assess property damage on fraud. Also, homeowners applying for grant money will receive a HUD OIG fraud awareness bulletin as part of their grant application package.

While we are all working together to put controls in place we do, however, still have some concerns. From an audit oversight standpoint, according to the MDA plan, oversight and monitoring of grant funds ceases after the state has issued "compensation" funds to the homeowner "to be used at the discretion of the homeowner."

The MDA plan is concerned with the funds to the point when they are given to the homeowner, at which point they are allowed to work through their personal disaster recovery as they see fit. We do not think that monitoring and oversight should end at this phase and we have remaining concerns about how a "compensation" plan that basically reimburses will spur the rebuilding of now blighted communities. What is to become of these communities in the future?

I can assure the Committee today that our monitoring plan intends to focus, to the greatest extent possible, on the ultimate disposition of the use of funds, the accountability by the state in issuing the funds and the homeowner's responsible use of the funds for their intended purpose – disaster relief, long-term recovery of communities, including the rebuilding of houses, and restoration of area's infrastructure.

There are also continuing problems with the execution of data matching among federal agencies. Our counsel is finalizing a protocol with FEMA in order to use their data for matching purposes but we have encountered roadblocks along the way.

The problems that we have encountered would be greatly mitigated if the Privacy Act included an exception for post-disaster data matching, or if alternative legislation – perhaps as a supplement to the Stafford Act – required federal agencies to engage in data matching as a routine procedure in their provision of disaster assistance.

Office of Audit Activities:

My Office of Audit established an office for Hurricane Katrina oversight immediately after the disaster to prepare for the long process of recovery. Concurrently, an audit plan was developed and reviews in the disaster areas begun.

Initially, the Office reviewed all HUD waivers to assure that statutory requirements were not waived. They are currently evaluating HUD's use of real estate owned (REO) properties to house disaster evacuees and auditing has commenced on HUD's actions in awarding $17 million in contracts issued for disaster-related activities. The timely nature of these reviews will establish our presence and act as a real-time deterrent to waste and abuse in HUD's activities.

In addition, the Office is also auditing management and marketing contractors in two separate states.

Moreover, we have identified PHAs providing Katrina Disaster Housing Assistance Program (KDHAP) vouchers with a plan to audit this process/matching review, and are monitoring HUD contracting efforts relating to disaster recovery efforts as part of the U.S. Department of Health and Human Services (HHS) Contract Oversight Task Force.

Office of Investigation Activities:

My Office of Investigation established the Hurricane Katrina Fraud Task Force (task force) to deal with HUD law enforcement issues. This task force works jointly with the Federal Bureau of Investigation (FBI), the U.S. Department of Justice (DOJ) Command Center in Baton Rouge, LA and State investigative agencies to investigate fraud in all HUD programs affected by the hurricanes in the Gulf. The task force is based in New Orleans with our personnel also assigned in Arlington and Houston, TX; Baton Rouge, LA; and Hattiesburg, MS.

The Office of Investigation has created a far-reaching fraud prevention program designed to: (1) create a training course for agents/auditors and program officials to teach them to identify fraud in CPD/grant programs; (2) sponsor fraud prevention meetings between HUD OIG and the major programs of HUD; and (3) sponsor fraud prevention meetings between HUD OIG and industry groups, such as the Mortgage Bankers Association; private insurance companies; the Public Housing Authorities Directors Association; the National Association Housing and Redevelopment Officials; multifamily owners; public housing executive directors; State governments; and economic development agencies.

As part of our fraud prevention program, HUD OIG has created a Suspicious Activity Report (SAR) that will be given to HUD grantees, subgrantees, and others associated with delivering disaster funds. As you can from the exhibit, the SAR is a method of informing HUD OIG of suspected irregularities in the delivery of HUD program money.

At this juncture, HUD Office of Investigation has opened 24 cases for the period ending April 27, 2006, which has resulted in six indictments, six arrests, and two convictions.

In closing, I would like to thank the Subcommittee for the opportunity to talk about the tremendous work that the agents, auditors, attorneys and support people of the HUD Office of Inspector General have accomplished since the onset of this tragic and trying event. Our people do it because we are committed to the Department's mission of providing safe, decent, sanitary and affordable housing for the Nation, and of providing economic development for our country's communities.

Mr. PLATTS. Thank you, Mr. Donohue.
Mr. Gimble.

STATEMENT OF THOMAS GIMBLE

Mr. GIMBLE. Chairman Platts, Ranking Member Towns, thank you for the opportunity to appear before the subcommittee today to address the oversight work regarding Katrina.

To date, over $85 billion has been committed for Hurricane Katrina relief and recovery efforts. The amount of money and the urgency to make funds available as quickly as possible increase the opportunity for fraud, waste, and mismanagement. Effective oversight by the Inspector General community is essential to minimize the risk to the taxpayers' dollars.

The Inspector General community has responded promptly to establish effective mechanisms to mobilize and coordinate both audit and investigative resources in response to Hurricane Katrina. I am working in close coordination with the other Federal Inspectors General through the President's Council on Integrity and Efficiency Homeland Security Roundtable to ensure the proper use of DOD resources in relief and recovery efforts.

Within DOD, we have leveraged resources by coordinating amongst the DOD Inspector General, the Service audit and investigative agencies, and other Federal agencies to avoid possible duplication of efforts and to ensure broad coverage.

On total, my office and the Service audit agencies, Defense Contract Audit Agency, and the Defense Criminal Investigative organizations have employed on average a cadre of about 150 auditors, investigators, and inspectors to provide oversight of the contracts and operations. Currently, my office has 11 ongoing audits related to Hurricane Katrina. Three of the audits were congressionally requested. One was requested by DOD. The remaining seven we initiated. The OIG deferred other audit work to ensure resources were available for this important effort. We gave Hurricane Katrina audit efforts priority, and those efforts took precedence over some of our planned audit work that had not been requested or mandated.

Further, the Service audit agencies have 14 ongoing audit projects. In addition, the Defense Contract Audit Agency is supporting both FEMA and the Army Corps of Engineers in their Hurricane Katrina recovery efforts.

The audits I just discussed are listed in the appendix to my prepared statement. An example of what my staff is reviewing is the award and administration of the Corps of Engineers contract on ice delivery, emergency water, and the Blue Roof Program. Some of the areas being reviewed include the pre-award process for compliance with Federal regulations and requirements; whether the contracts were awarded competitively or sole source; whether the contracts were properly awarded to small, minority, or locally owned firms; and also payment information. We also plan to assess additional audit effort based on need and risk. In the June timeframe, the DOD audit community plans to initiate additional audits in the areas of contractor pricing and the number of layers of subcontractors used, demolition contracts, contracts to enhance the flood pro-

tection system, and reconstitution efforts at Keesler Air Force Base.

In addition to the audit coverage, the Defense Criminal Investigative Service is working jointly with other investigative organizations, including the Hurricane Katrina Fraud Task Force. DCIS also supports the joint law enforcement and U.S. Attorney's Offices working group headquartered in Covington, LA, and the Joint Criminal Investigative Task Force in Mississippi. These efforts have already resulted in the successful conviction of two defendants.

The DCIS has received 17 criminal allegations related to Hurricane Katrina and has opened 7 cases dealing with bribery, kickback, and possible product substitution. The DCIS agents in Louisiana have also examined an additional five allegations concerning MREs, which were referred by the Government Accountability Office during its Katrina review. These allegations were later determined not to be related to Katrina.

Additionally, the DCIS has conducted 34 mission and fraud awareness briefings for the Army Corps of Engineers and contractor personnel.

The Inspector General community recognized early on the high risk posed by the Hurricane Katrina relief efforts and we have stepped up to meet the challenge. Much of our work is ongoing, and there is still much left to be done. However, by devoting significant audit and investigative resources to this area, the Inspectors General are now a major force in detecting and deterring fraud and mismanagement in the use of Federal funds allocated to hurricane relief and recovery. By focusing attention on the internal controls that govern the administration of our contracts, our efforts will help ensure that Federal relief funds are used more efficiently.

This concludes my statement. I would be happy to answer any questions.

[The prepared statement of Mr. Gimble follows:]

May 10, 2006

Hold for Release
Expected 2:00 p.m.

Statement
of
Mr. Thomas F. Gimble
Principal Deputy Inspector General
Department of Defense

before the

Subcommittee on Government Management,
Finance and Accountability
House Committee on Government Reform

on

"After Katrina: The Role of the Department of Justice Katrina Fraud Task Force and Agency Inspectors General in Preventing Waste, Fraud, and Abuse"

Mr. Chairman and Members of the House Subcommittee on Government Management, Finance and Accountability:

Thank you for the opportunity to appear before the subcommittee today to address our ongoing oversight work regarding Hurricane Katrina.

To date over $85 billion has been committed for Hurricane Katrina relief and recovery efforts. The amount of money and the urgency to make funds available as quickly as possible increase the opportunity for fraud, waste, and mismanagement. Effective oversight by the Inspector General community is essential to minimize the risk to taxpayers' dollars.

I believe the Inspector General community responded promptly to establish effective mechanisms to mobilize and coordinate audit and investigative resources in response to Hurricane Katrina. I am working in close coordination with other Inspectors General through the President's Council on Integrity and Efficiency (PCIE) Homeland Security Roundtable on Hurricane Katrina and the Hurricane Katrina Fraud Task Force to ensure proper use of DoD resources in the relief and recovery efforts. Within DoD we have leveraged resources by coordinating among the DoD OIG, Service audit and

investigative agencies, and other Federal agencies to avoid possible duplication of efforts and to ensure broad coverage.

Specifically within DoD, the DoD Office of Inspector General, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Defense Contract Audit Agency, the Defense Criminal Investigative Service, and the other Defense Criminal Investigative Organizations have employed a cadre of about 150 auditors, investigators, and inspectors who have provided professional oversight of contracts and operations related to Hurricane Katrina relief and recovery efforts.

Hotline Efforts

In addition, my office provided the facilities and personnel needed to initially stand up the Hurricane Katrina Fraud Hotline. During the period October 5, 2005, and March 19, 2006, staff from the Defense Hotline and personnel detailed from other Federal agencies operated the Hurricane Katrina Fraud Hotline. On March 20, 2006, the Hotline operations transitioned to the Hurricane Katrina Fraud Task Force Command Center in Baton Rouge, Louisiana. As of the end of March, the Hotline reported 9,664 contacts, which include calls, email, letters, and faxes. Of those total contacts, 5,017 cases were opened and forwarded to the Department of Homeland Security for further review.

DoD Audit Efforts

The DoD audit efforts cover the main contracting areas the U.S. Army Corps of Engineers is primarily responsible for under the 2004 National Response Plan, namely the Emergency Support Function #3 *Public Works and Engineering*. To further emphasize the importance of Katrina, the DoD audit community's efforts specifically covered high risk areas such as funding, purchase cards, and contracts.

I would like to bring to the attention of the Subcommittee the fact that the DoD Office of Inspector General has 11 of the ongoing audits related to Hurricane Katrina. These audits cover contracts on ice delivery, the Blue Roof Program, emergency water, subsistence, and construction capabilities; expanded micro-purchase authority for purchase card transactions; effects on information technology resources in affected areas; accounting and oversight of obligations and expenditures related to DoD Hurricane Katrina efforts; and the use of DoD resources supporting recovery and relief efforts. Three audits were congressional requests, one audit was requested by DoD, and the remaining seven were self-initiated. We have deferred other self-initiated audit work to ensure resources are available for this important effort. Hurricane Katrina audit efforts were given priority and took precedence over planned audit work that was not requested or mandated.

Audits on Contracting. My staff is reviewing the award and administration of the Corps of Engineers contracts on ice delivery, emergency water, and the Blue Roof

Program and the Defense Logistics Agency contracts on subsistence. Some of the areas being reviewed include the pre-award process for compliance with Federal regulations and requirements; whether the contracts were awarded competitively or sole source; whether the contracts were awarded to small, minority, or locally owned firms; and payment information. The construction capabilities contract we are reviewing involves the reasonableness of costs incurred on task orders for relief efforts after Hurricane Ivan and Katrina. In addition, we are reviewing the methods and procedures the Navy used to ensure that it paid fair and reasonable prices for the labor and material used to support hurricane relief efforts.

Audit of Purchase Cards. My staff is reviewing whether purchase cardholders made purchase card transactions in support of Hurricane Katrina rescue and relief operations in accordance with Section 101 of Public Law 109-62, "Second Emergency Supplemental Appropriations Act to Meet Immediate Needs Arising from the Consequences of Hurricane Katrina." The purchase card transactions must have been reasonable, appropriate, and consistent with DoD purchase card policies and procedures. The scope of the audit includes DoD purchase card transactions over $2,500 made from September 1, 2005, through September 30, 2005. We included the Army, Air Force, and Defense agency cardholders; the Naval Audit Service initiated a similar audit on Navy cardholders.

Audits of Effects of Information Technology Resources in Affected Areas. We are determining the effects of Hurricane Katrina on DoD information technology resources at the Defense Information Systems Agency and Army activities in the affected areas. More specifically, we are reviewing the effects of Hurricane Katrina and the actions taken before, during, and after and the effects and processes used to secure information resources.

Audit of Accounting and Oversight of Obligations and Expenditures. Our audit work regarding funding is focusing on the accounting and oversight of obligations and expenditures related to the Department of Defense effort in three areas: FEMA reimbursable funds to DoD, DoD supplemental funds received by the Corps of Engineers, and DoD supplemental funds provided to several DoD entities.

Audit of the Use of DoD Resources Supporting Recovery and Relief Efforts. As a supporting agency, DoD provided overwhelming support to the Hurricane Katrina disaster relief efforts. We are auditing the use of DoD resources in providing relief efforts in support of Hurricane Katrina. We are reviewing U.S. Northern Command's planning and coordination in this effort and DoD's role in supporting the National Response Plan.

Oversight by Service Audit Agencies

Further, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency have each provided audit oversight. These audit agencies currently have among them 14 ongoing audit projects that cover contracts on debris removal, quality assurance service, and hurricane protection system; financial accounting and reporting; contract data reporting; purchase cards; and controls and accountability over medical supplies and equipment.

Oversight by DCAA

The Defense Contract Audit Agency (DCAA) is supporting both FEMA and the Corps in their Hurricane Katrina recovery efforts.

DCAA's support to FEMA is focused on FEMA's four largest reconstruction contractors: Bechtel, CH2M Hill, Fluor Federal, and Shaw Environmental. The audit effort has included forward pricing reviews, reviews of costs billed under Government contracts and pre-award accounting system surveys, as well as support of Source Selection Evaluation Boards.

DCAA has also provided direct support to the Corps emergency response mission. DCAA provides professional advice on accounting and financial matters to assist in the negotiation, award, administration, re-pricing, and settlement of contracts. DCAA has been primarily involved in the Corps missions related to installation of temporary roofing

(Blue Roof Program) and debris removal (Debris Mission). This effort involves verifying contractor compliance with the terms and conditions of the contract. DCAA conducts audit steps such as on-site visits, physical observations, and verification of contractor records to ensure compliance with contractor policies and contract terms. For the Blue Roof Program, DCAA's findings have included lack of initial estimates on Right of Entry forms, claimed quantities in excess of actual physical roof area, incomplete certified payroll records, and safety violations. For the Debris Mission, DCAA's findings have included the need for improved observation tower locations at dump sites, lack of standard procedures for determining the amount of debris hauled to dump sites, lack of controls over the billing process, and safety violations.

These observations and recommendations are recorded and reported to the Corps on a real-time basis. The Corps has taken corrective action on an ongoing basis or is in the process of taking corrective actions with the responsible contractors.

Plans for Continued Audit Coverage

Together my audit staff and the Service Audit Agencies have 25 ongoing audits and we plan to assess additional audit efforts based on need and risk. In response to concerns raised by the public and Congress, specifically related to subcontracting and contract pricing for temporary roofs, we plan to initiate an audit in June 2006 on contractors' costs used to establish pricing, the percent of contract cost for overhead, and the number of layers of subcontractors used. The Service Audit Agencies plan to initiate

additional audits in the areas of demolition contracts, contracts to enhance the flood protection system, and reconstitution efforts at Keesler Air Force Base.

Investigative Oversight

The Defense Criminal Investigative Service (DCIS) is working jointly with other investigative organizations, including the Hurricane Katrina Fraud Task Force. Additionally, DCIS also supports the joint law enforcement and U.S. Attorney's Offices working group headquartered in Covington, Louisiana, and the Joint Criminal Investigative Task Force headquartered in Mississippi. These efforts have already resulted in the successful conviction of two defendants.

The Hurricane Katrina Fraud Task Force Command Center, headquartered in Baton Rouge, Louisiana, has been instrumental in coordinating investigations and collecting, analyzing and disseminating criminal investigative data. The Task Force consists of senior law enforcement and U.S. Attorney's Office personnel. Within this group, DCIS' responsibilities include serving as the point of contact for all issues involving the U.S. Army Corps of Engineers, attending bi-weekly meetings to brief other task force members of investigative efforts, and participating in proactive data mining efforts with a Federal Bureau of Investigation intelligence analyst assigned to the task force. Specifically, the Corps Debris Mission database is reviewed to identify possible indicators of fraud and other criminal activity.

DCIS has received 17 criminal allegations related to Hurricane Katrina and has opened 7 cases dealing with bribery, kickbacks, and possible product substitution. DCIS agents in Louisiana have also examined 5 allegations concerning Meals Ready to Eat (MREs) which were referred by GAO during its Katrina review; these allegations were determined to be unrelated to Katrina.

One of the opened cases has resulted in the successful conviction of two defendants. On March 21, 2006, the defendants entered guilty pleas to a single count criminal information. Specifically, a government representative and a subcontractor pled guilty to conspiracy to commit bribery. Sentencing is scheduled for June 8, 2006.

As part of its mission to combat fraud and corruption, DCIS has conducted 34 mission and fraud awareness briefings at the U.S. Army Corps of Engineers debris collection and Blue Roof distribution sites. DCIS briefed Corps and contractor employees on the deterrence of potential fraud, bribery, and kickback schemes by informing them that law enforcement officials would be monitoring illegal activity and to give them a point of contract to report suspected fraud. Since the Blue Roof Program has concluded and the Debris Mission is slowing down for the Corps, no additional mission briefs are anticipated.

Conclusion

The Inspector General community recognized early on the high risk posed by the Hurricane Katrina relief effort and stepped-up to meet the challenge. Much of our work remains ongoing and there is work still to be done; however, by devoting significant audit and investigative resources to this area, Inspectors General are now a major force in detecting and deterring fraud and mismanagement in the use of federal funds allocated to hurricane relief and recovery. By focusing attention on the internal controls that govern the administration of contracts, our efforts will help ensure federal relief funds are used more efficiently.

This concludes my statement, I will be happy to answer any questions that the Subcommittee may have.

APPENDIX

DEPARTMENT OF DEFENSE HURRICANE KATRINA OVERSIGHT

Issued Audit Reports

Naval Audit Service

Report N2006-0015, Chartered Cruise Ships, February 16, 2006.

Ongoing Audit Projects

DoD Office of Inspector General

Audit of the DoD Contract Support for the Hurricane Katrina Recovery Effort, Project No. D2005-D000CH-0309.000, September 15, 2005.

Audit of the Effects of Hurricane Katrina on DoD Information Technology Resources in Affected Areas, Project No. D2005-D000AS-0310.000, September 15, 2005.

Audit of the Use of DoD Resources Supporting the Hurricane Katrina Disaster, Project No. D2006-D000LA-0009.000, September 19, 2005.

Audit of Accounting and Oversight of Obligations and Expenditures Related to the DoD Hurricane Katrina Reconstruction Effort, Project No. D2006-D000FE-0010.000, September 19, 2005.

Audit of Expanded Micro-Purchase Authority for Purchase Card Transactions Related to Hurricane Katrina, Project No. D2006-D000CK-0019.000, September 23, 2005.

Audit of the International American Products, Worldwide Services, Ice Delivery Contract for the Army Corps of Engineers, Project No. D2006-D000CG-0075.000, November 8, 2005.

Audit of the Army Corps of Engineers' "Operation Blue Roof" Project in Response to Hurricane Katrina, Project No. D2006-D000CG-0081.000, November 9, 2005.

Audit of USACE's "Emergency Water" Contractor, Project No. D2006-D000FE-0091.000, November 17, 2005.

Audit of Costs Incurred Under the CONCAP Contract Task Orders for Hurricane Relief Efforts, Project No. D2006-D000CH-0110.000, January 9, 2006.

Audit of Defense Logistics Agency Subsistence Contracts used for the Hurricane Katrina Recovery Efforts, D2006-D000CG-0121.000, January 23, 2006.

Audit of Disaster Recovery Efforts Related to Hurricane Katrina on Army Information Technology Resources, Project No. D2006-D000AS-0135.000, February 13, 2006.

APPENDIX

Army Audit Agency

Audit of Army Fund Accountability for Hurricane Relief Efforts, Project No. A-2006-FFD-0216.000, October 7, 2005.

Audit of Debris Removal Contracts, Project No. A-2006-FFD-232.000, October 12, 2005.

Audit of Contracts for Hurricane Protection System, Project No. A-2006-FFD-0238.000, October 12, 2005.

Audit of the Contract Data Reporting for Hurricane Operations, Project No. A-2006-FFD-0250.000, December 12, 2005.

Audit of Quality Assurance Service Contracts for Hurricane Operations, Project No. A-2006-FFD-0354.000, December 12, 2005.

Naval Audit Service

Audit of Hurricane Katrina Relief Funds, Project No. N2006-NFA000-0009.000, September 30, 2005.

Audit of Department of the Navy's Use of Hurricane Katrina Relief Funds, Project No. N2006-NFA000-0009.003, September 30, 2005.

Audit of Cash Accountability of Department of Navy Disbursing Officers for Hurricane Katrina Relief Funds, Project No. N2006-NFA000-0009.004, September 30, 2005.

Audit of Government Commercial Purchase Cards Used for Hurricane Katrina Relief Efforts, Project No. N2006-NFA000.0009.002, October 3, 2005.

Audit of Controls and Accountability Over Medical Supplies and Equipment—Hurricane Relief Efforts, Project No. N2006-NFA000-0009.005, October 17, 2005.

Audit of Contractor Support Services in Support of Hurricane Relief Efforts, Project No. N2006-NFA000-0009.006, October 17, 2005.

Air Force Audit Agency

Audit Planning, Hurricane Katrina Relief Efforts, Project No. F2006-FB1000-0124.000, October 5, 2005.

Hurricane Katrina Federal Emergency Management Agency (FEMA) Reimbursements, Project No. F2006-FB1000-0173.000, November 1, 2005.

Hurricane Katrina Supplemental Funds Management, Project No. F2006-FD1000-0210.000, November 21, 2005.

Mr. PLATTS. Thank you, Mr. Gimble.
Mr. Thorson.

STATEMENT OF ERIC THORSON

Mr. THORSON. I appreciate very much your invitation to be here today to speak about our oversight of the Small Business Administration's disaster relief efforts. Like several of you have mentioned, I, too, visited the Gulf Coast area and can tell you I could not comprehend the forces that could cause that level of devastation. It is very clear that a massive recovery effort will be needed for some time to come, and it is also clear that the Inspector General community must play a vital role if we are to deter fraud and control wasteful expenditures.

Certainly one of my highest priorities is to conduct effective, aggressive, and proactive oversight of the SBA disaster relief programs. In this effort, we are establishing an office in New Orleans so that we are on the ground near the devastated areas where the rebuilding effort will occur. We are now in the final steps of hiring the additional investigators and auditors that will be needed to staff that office.

I think it would be helpful to very quickly summarize the SBA's disaster assistance program. SBA makes two types of low-interest disaster assistance loans: first, SBA makes loans to businesses, homeowners, renters, and organizations to rebuild and replace uninsured property; second, SBA makes economic injury disaster loans, which provide working capital to small businesses until operations can be resumed. SBA has already approved $9 billion in disaster loans, with many applications still to be reviewed. SBA disaster loans are especially vulnerable to fraud and unnecessary losses because of SBA's desire to provide quick relief to disaster victims. Many SBA disaster loans have not yet been disbursed because borrowers have not obtained necessary building permits or lined up contractors. Also, borrowers are not required to begin repaying the loans until a year after the initial disbursement. Since many borrowers are still in the process of putting their lives together, it may not be to their benefit to start receiving the loan proceeds until they are in a position to begin actual construction. Once that first dollar is drawn, the clock starts ticking on when they have to begin paying back that loan.

Because loan repayment is deferred 1 year, fraud and agency inefficiencies will not come to light for quite some time. Although we have already initiated a number of audits and investigations, we have also developed a long-term plan for our oversight of SBA's disaster relief effort. We are participating in the PCIE and ECIE Homeland Security Roundtable, and commend Rick Skinner at DHS for organizing the reporting on Inspector General efforts and establishing highly effective lines of communications. We have been working closely with the DHS IG to review problems with the interface between the SBA computer system and the FEMA system, which have delayed disaster assistance reaching victims.

The SBA OIG has issued a series of reports to SBA addressing these findings, thereby helping to expedite disaster assistance to those in need.

One of our most important roles is to ensure that small business set-aside contracts are not actually performed by large firms. We have developed a review guide on small business procurement requirements so that all OIGs can determine whether their agencies have complied with small business contracting requirements. We are actively promoting the use of this guide among the IG community now.

We are closely reviewing SBA's planned upgrade of the disaster computer system to see whether the system will function correctly for its contemplated 7,000 users and that it will meet Federal requirements. This was a serious problem for SBA and initially hindered the processing of loan applications.

We are also working with the DHS and HUD OIGs to identify individuals who may receive duplicative benefits. By sharing information within applicable legal requirements, we will be able to identify whether borrowers have accurately disclosed to SBA that they received a HUD or FEMA grant and whether the amount of SBA's loan has been appropriately reduced.

We are participating in the Department of Justice Fraud Task Force. The task force has developed a highly effective model to investigate fraud by establishing a centralized case management system to track all hurricane-related investigations, reduce duplicative efforts, and identify fraud trends. Their contribution has been outstanding.

We are also reviewing the agency's disaster loan approval and disbursement process to see if disaster loans are being disbursed in a timely and sound manner. We have planned a number of audits to thoroughly review SBA's loan operations from processing, through servicing, and finally to liquidation for any defaulted loans.

Our office has opened investigations of multiple allegations of fraud relating to disaster loans. Allegations have included claims for property damage that never occurred, false statements about prior criminal records, attempted bribery of SBA officials, and misuse of SBA loan funds for gambling or other unauthorized purposes. We have referred several of these cases to the Department of Justice for prosecution and have other investigations underway.

We have also begun several proactive projects to identify fraudulent conduct. One project will identify borrowers who make false statements about prior criminal conduct on their SBA loan applications. A second project is a joint effort with the DHS and other IGs to identify applicants for disaster assistance who falsely claim that they resided in the affected areas during the Gulf hurricanes. Your questions earlier this afternoon show the importance that you put on Congress ensuring that the OIGs receive adequate resources to allow them to undertake effective oversight of this massive recovery and rebuilding effort.

Some have called for the appointment of a Special Inspector General to oversee the recovery, and I guess I would ask that you consider that for over 27 years, the Inspectors General have exhibited an extremely high level of professionalism and accountability. You have heard this afternoon how the IG community has assumed this task, and I assure you we will continue to perform to the highest standards.

I very much appreciate the opportunity to have been present on this panel, and I look forward to whatever questions you might have.

[The prepared statement of Mr. Thorson follows:]

STATEMENT OF

ERIC M. THORSON, INSPECTOR GENERAL,
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY OF THE
COMMITTEE ON GOVERNMENT REFORM,
UNITED STATES HOUSE OF REPRESENTATIVES

CONCERNING A HEARING ENTITLED:

"AFTER KATRINA: THE ROLE OF THE DEPARTMENT OF JUSTICE KATRINA FRAUD TASK FORCE AND AGENCY INSPECTORS GENERAL IN PREVENTING WASTE, FRAUD, AND ABUSE"

MAY 10, 2006

Introduction:

- I appreciate the Subcommittee's invitation to speak about our oversight of the Small Business Administration's disaster relief effort for the victims of the 2005 Gulf Hurricanes. Although the destruction of the Gulf Hurricanes has been widely reported, it is difficult to truly understand the impact of these storms until you have actually visited and seen the affected areas. I recently visited the Gulf Area, and I can tell you that the extent of the devastation is almost beyond comprehension.

- Inspector General Oversight Will Be Needed. It is clear that a massive effort by governments and the private sector will be needed for many years to come. Given the level of expenditures that will be directed at rebuilding the lives, infrastructure, and economy of the Gulf Area, the Inspector General community will play a vital role in controlling wasteful expenditures, overseeing agency management, and detecting and prosecuting wrongdoers who try to take advantage of this disaster by committing fraud to improperly obtain benefits or contracts.

- Oversight of SBA's Disaster Program is a Top Priority. One of my highest priorities is to conduct effective, aggressive, and proactive oversight of the extensive SBA disaster relief efforts. One of my first actions is the establishment of an office in New Orleans so that we are on the ground near the devastated areas where the brunt of the rebuilding effort will occur. We are in the final steps of hiring additional investigators and auditors to staff this office, using supplemental appropriations that became available at the end of January. I will discuss our ongoing and planned audit and investigations in greater detail below. But first, I would like to quickly summarize the SBA's disaster assistance mission for those who may not be familiar with this program.

Overview of Disaster Loan Program:

- SBA Disaster Loan Program is Vulnerable to Fraud and Losses. SBA makes direct loans to victims of natural and man-made disasters to assist with long-term recovery needs. Loans are made at a low interest rate, generally less than 4 percent, with generous repayment terms, which can last up to 30 years. By law, SBA is authorized to make two types of disaster assistance loans in this kind of disaster scenario: (1) physical disaster loans to homeowners, renters, businesses, and nonprofit organizations, which fund permanent rebuilding and replacement of uninsured real and personal property; and (2) economic injury disaster loans, which provide necessary working

inefficiencies. Congress needs to ensure that OIGs receive adequate resources to allow them to undertake effective and necessary oversight. We are grateful for the supplemental appropriations that were provided for the SBA Office of Inspector General. We will use those funds effectively and will produce notable results. Although some have called for the appointment of a special Inspector General to oversee the recovery effort, we believe that the high level of cooperation and coordination in the IG Community that has taken place to date should alleviate any such concerns. Frankly, the existing Inspector General Offices have the greatest expertise and understanding of the various Federal disaster assistance programs. Establishing a new oversight authority with personnel that are not familiar with these programs will not likely expedite OIG efforts or produce a higher level of accountability. Indeed, for over 27 years, the Inspectors General have exhibited a high level of professionalism and accountability. The IG Community will continue to meet these high standards in its current oversight of the recovery effort.

- Thank you for the opportunity to comment. I look forward to answering any questions that you may have.

looking into whether agency inefficiencies are contributing towards delays in the disbursement process. However, it is important to note that the Agency has a number of important controls in place to protect against fraud and waste, which necessarily delay the disbursement of disaster loans. For example, loans for physical damage are generally not disbursed until the borrower can show that the necessary building permits have been obtained and a contractor has been lined up to do the work. Disbursements are then generally made incrementally based upon submission of contractor invoices for completed work by the borrower. The shortage of available contractors and any delay in local government issuance of permits are factors that are beyond SBA's control. Obtaining flood insurance is also a prerequisite to loan disbursement. Since many of the borrowers are still in the basic process of putting their lives together, moreover, it may not be to their benefit to start drawing on the loans until they are in a position to begin actual construction. Because once that money is disbursed, the clock starts ticking on when they have to begin paying back the loan, and interest accrues on the disbursed amounts.

- OIG's Long-Term Planning. I should note some important differences between SBA's long-term disaster relief program and other Federal programs. Many other agencies have already issued the contracts and grants, or will have completed much of their efforts in the months to come. However, the delays in the disbursement of SBA disaster loans, and the fact that borrowers will not be obligated to begin repaying their disaster loans until a year after disbursement, mean that a great deal of fraudulent borrower conduct may not come to light for a long time. Similarly, agency loan processing and servicing errors may not be detected for quite a while. Thus, although we have initiated a number of reviews and proactive investigatory efforts, the SBA OIG has also developed a long-term plan to guide its oversight of SBA's disaster relief.

Summary of OIG Actions:

- Inter-Agency Coordination and Cooperation. You have asked me to address the level of coordination between the various offices of Inspectors General in the recovery and rebuilding efforts. Although I only recently joined SBA, my staff has advised that the collective response of the Inspectors General has been extremely well coordinated. We are participating in the President's Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE) Homeland Security Roundtable. Under the leadership and coordination of Rick Skinner at the Department of Homeland Security (DHS), the PCIE/ECIE Roundtable is coordinating the Inspector General efforts and sharing information to aggressively respond to potential fraud, waste, and abuse issues in the Gulf Coast region. More importantly, based upon

Federal requirements, and is developed and implemented in a controlled manner. In a recent advisory report, we determined that SBA's plan to upgrade the computer system did not include a review of security requirements that is mandated by Federal information system guidelines.

- Work With HUD and FEMA to Identify and Prevent Duplicative Benefits. As another example of interagency cooperation, through the PCIE/ECIE Homeland Security Roundtable, we are working with the Inspector General Offices from DHS and the Department of Housing and Urban Development (HUD) to develop a system to identify individuals who may have received duplicative benefits. The Stafford Act directs the Federal Government to reduce duplicative payments to disaster victims so people are not provided more assistance than they need. SBA regulations require that the amount of a disaster home loan be reduced by any insurance payment, grant or other compensation. We are coordinating efforts to develop an information sharing program, within applicable legal requirements, to identify individuals who have received both an SBA disaster home loan and a HUD or FEMA grant. Matches will be reviewed to determine whether the homeowner has accurately disclosed the HUD or FEMA grant to SBA and whether the amount of SBA's loan has been appropriately reduced. As an example of one of the proactive measures we are undertaking to identify applicant fraud, we will investigate borrowers that appear to have falsely certified that they have not received a grant or other assistance, and refer these cases for prosecution, where appropriate.

- Oversight of SBA Disaster Loan Operations. The Office of Inspector General also has an ongoing review of the Agency's disaster loan approval and disbursement process to determine if disaster loans are being processed and disbursed in a timely and sound manner. In addition, the OIG is looking at external impediments, such as local governments and other Federal requirements that may unduly delay disaster loan funds that home and business borrowers need to initiate the rebuilding process. We will also review the Agency's loss verification process, the modification and servicing of disaster loans, loans that experience an unusually early default to assess whether adequate underwriting was employed, and SBA's liquidation of loans after they have gone into default to examine whether sufficient resources are being allocated to ensure a sufficient recovery of taxpayer dollars.

- Proactive Investigatory Efforts. In addition to the duplication of payments initiative discussed above, we have also initiated several proactive projects to identify fraudulent conduct by disaster borrowers. One project is designed to identify borrowers who submit false statements on their SBA applications for disaster assistance business loans relating to past

tracking system, and establishing a focal point of investigative representatives at the Baton Rouge operations center, the Department of Justice Katrina Task Force has developed an effective structure to investigate these fraud cases.

- Current Investigations of Fraud and Wrongdoing. SBA OIG has investigated -- and is currently investigating -- multiple allegations of wrongdoing related to the Gulf Hurricanes. Thus far, allegations involve claims for property damage that never occurred or for property not owned by the borrower during the disaster; false statements about prior criminal records; wrongful collection of FEMA payments while applying for an SBA loan; attempted bribery of SBA officials; misuse of SBA loan funds for gambling or other unauthorized purposes; and overstatements of financial loss. We have referred several cases to the Department of Justice for criminal prosecution and have other investigations underway.

- Integrity in Small Business Contracting. One of the significant issues facing the enormous Federal procurement activity in the Gulf Area is ensuring that small businesses are given adequate contracting opportunities. Further, to ensure integrity in small business contracting, it is vital that contracts reserved for small firms are not actually performed by large businesses. We are working with other agency OIGs on this issue. We have developed and issued to other OIGs a guide on small business procurement requirements for their use in auditing agency compliance with contracting requirements. We have also coordinated with the Government Accountability Office on their recently-initiated review of small business procurement in the Gulf region.

- Reviews of SBA Disaster Computer System. We are also conducting an overall review of SBA's Computer System for the Disaster Program in addition to the review of the system's interaction with FEMA's system, discussed above. SBA's system was designed to accommodate 1,500 employees involved in processing SBA disaster loans. Our review noted that, initially, the system was overwhelmed and would repeatedly be inoperative because there were too many users on the system, among other reasons. SBA then took steps to stabilize its system.

- OIG Will Continue to Monitor the Upgrade of the System. Since the Gulf Hurricanes, SBA has upgraded the system -- and employed multiple shifts -- to be able to support a total of 4,000 users. SBA has also announced that it plans to implement a significant hardware and software upgrade to support 7,000 or possibly more users. The OIG is carefully reviewing the upgrade of this system to ensure that the system will function correctly for this many users, will meet

the accumulated knowledge and previous experience in identifying internal control weaknesses and fraud schemes in agency programs, the IG community is uniquely positioned to ensure that agency activities and funds are utilized as effectively as possible. Reporting to Congress and the public on Inspector General efforts has been consolidated and well organized, and the IG community has established effective lines of communication to eliminate and coordinate overlapping and duplicative efforts where they arise.

- Work With DHS OIG on Interaction of SBA and FEMA Computer Systems. For example, we have been working with the DHS Office of Inspector General to coordinate our review of the interaction between SBA's Disaster Computer System and the Federal Emergency Management Agency (FEMA) System. Although applications for business disaster loans can be submitted directly to SBA, all applicants for SBA home disaster loans must register with FEMA first. The SBA and FEMA computer systems have been designed to "talk" to one another; when someone registers with FEMA for assistance, they are automatically referred to SBA. A disaster loan application is then mailed to the victim.

- Issuance of Advisory Reports Addressing Problems Found. Our work with DHS has identified a number of problems with the interface between these two systems. Deficiencies in communications between the systems, or agency failure to promptly correct errors, have resulted in delays in providing disaster assistance to needy victims. Additionally, problems with data requested by the FEMA system resulted in an excessive number of referrals to SBA and applications being mailed to victims, which resulted in the expenditure of unnecessary resources. We have issued a series of advisory reports to the Agency, discussing these concerns. Rather than issuing extensive audit reports, our intent has been to bring these concerns quickly to the Agency's attention so that problems can be resolved, thereby expediting delivery of disaster assistance to those in need. These reports are available on the OIG website which is accessible through the Agency's main webpage, www.sba.gov/ig.

- Effectiveness of Hurricane Katrina Fraud Task Force. You have also asked for our opinion as to the importance and assistance of the Department of Justice multi-agency Hurricane Katrina Fraud Task Force. By establishing the Task Force, the Attorney General has signaled that prosecutions resulting from fraud investigations in the Gulf Coast region will be a high priority. The Task Force has established a centralized case management system to track all hurricane related investigations, reduce duplicative efforts, and identify fraud trends. By creating this

criminal records. It is SBA's policy that individuals with poor character, such as those who have committed felonies and other crimes, not receive disaster loan assistance. Applicants for loans are required to disclose whether they have any criminal background. We have initiated a program of conducting criminal history checks on a statistical sample of disaster loans to determine whether applicants have made false statements regarding their background.

- A second project is a joint effort with the DHS OIG and other OIGs to identify applicants for disaster assistance loans who did not reside in the affected areas during the Gulf Hurricanes. Initial steps include verifying employment records of certain subjects and examining names of persons currently residing in Texas who have applied for SBA and/or FEMA hurricane assistance for losses allegedly incurred in other states. We have also initiated a program to review SBA's data of hurricane-related disaster assistance loans to proactively identify potential fraud in disaster loans. Fraud indicators will be similar to those used by an SBA OIG group examining regular business loans. Where indicators exist, we will investigate and bring to prosecution culpable parties.

Additional OIG Activities:

- Background Investigations. The SBA OIG's Office of Security Operations (OSO) has conducted background investigations on thousands of employees who have been hired for SBA's loan processing and operations for the Gulf Hurricanes disasters. The OSO has also conducted name checks and FBI fingerprint checks on hundreds of borrowers whose disaster loan applications indicated a criminal history. The results of these checks are reported to SBA program officials for character eligibility determinations.

- Fraud Awareness Briefings. The SBA OIG has provided fraud awareness information briefings to numerous SBA disaster employees, and OIG fraud hotline posters were disseminated throughout SBA field disaster centers in the Gulf states so that SBA officials and the public could readily report fraud.

Conclusion:

- What Additional Steps Can Congress Take. You have also asked for our views on whether Congress needs to take additional action to support the Inspector General Community. In light of the significant Federal resources being devoted to the recovery and rebuilding effort, Inspector General oversight will be critical to deter and prosecute fraud and identify and prevent agency

capital to small businesses until normal operations can be resumed after a disaster. The SBA disaster program is especially vulnerable to fraud and unnecessary losses because loan transactions have been expedited in order to provide quick relief to disaster victims. Given the vast amount of money that SBA is making available, and the pressure that has been directed at the Agency to get the money out quickly, we anticipate that this vulnerability will be greatly exacerbated.

- SBA Unprepared for Scope of Gulf Hurricanes. SBA was not prepared for a disaster on the scale of the Gulf Hurricanes (although I am not sure how any Federal agency could have been prepared for what I saw). Indeed, Hurricane Katrina could not have come at a worse time for the Agency. In August, 2005, just before Katrina hit, the Agency initiated a major reorganization of the disaster office, revising and consolidating the functions of all offices. At the same time, SBA was just introducing a new computer system, called the Disaster Credit Management System, to process loans electronically and transfer loan data between offices. The system had never been used in a significant disaster and, as discussed below, was not originally configured to accommodate the vast numbers of employees and loan applications that were needed for a disaster of this magnitude.

- Significant Agency Response. Despite significant obstacles, the Agency appears to have responded well to many of the challenges of this relief effort. Between the beginning of September through November, SBA hired over 3,300 employees to work on the disaster relief effort, more than SBA's entire workforce prior to Hurricane Katrina. The Agency has received more than 414,000 applications for disaster loans and has approved over 136,000 loans totaling almost $9 billion. To date, SBA has approved almost $1.9 billion in business disaster loans and almost $7 billion have been approved for homeowners and renters. In addition, close to $400 million in loans have been approved for businesses in the Gulf Area through SBA's 7(a) loan guarantee and 504 programs.

- In comparison, in response to the Northridge Earthquake in 1994, which was the biggest disaster relief effort the Agency had faced prior to the Gulf Hurricanes, SBA made approximately $4 billion in disaster loans. In only two other disasters had SBA made more than $1 billion in disaster loans: the September 11, 2001 terrorist attacks and the Florida hurricanes of 2004.

- Delays in Disbursement. Although SBA has approved close to $9 billion in disaster loans for the Gulf Hurricane victims, it has disbursed only slightly more than a billion dollars. We are

Mr. PLATTS. Thank you, Mr. Thorson, and I share your opinion of the response of the IG community to this disaster in very quickly coming together and moving forward in a very coordinated fashion to, again, safeguard the American taxpayer funds while we provide the relief that is so much needed throughout the Gulf Coast region. And your description is what I saw as well on my visit. It is pretty staggering to see the devastation and appreciate what has happened there.

Where you wrapped up is where I would like to start with a question. The challenge here is going to be a long-term challenge, and you have all stood up your offices in great fashion, and quickly, to provide whatever your manpower needs were to properly receive these billions of dollars. But given that it is going to be many years in the making, this recovery effort, what do you envision your needs—or how your needs are being met today or will be met long term when it comes to personnel and offices, I mean just general infrastructure for your operations? I know there are funds in the supplemental that will certainly help in the short term, but, you know, are you looking at realignment or need for more permanent increases because of how many years you will be involved in this recovery effort? And I open that up to any of our four panelists.

Mr. JADACKI. I can respond to that from the DHS standpoint. When FEMA was subsumed by the Department of Homeland Security, the entire Inspector General's Office at FEMA became sort of the nucleus of the Inspector General's Office at Homeland Security. As other organizations came in, there were some other Inspector General staff that came along with that. So there was really the expertise within FEMA because most of the work had been done auditing disaster grants and disaster activities. So the expertise resided there.

For the first couple years at Homeland Security, there was a shift in focus on more of the organization and the consolidation of homeland security and some of the other activities. So a lot of the work traditionally done by the Inspector General within FEMA and then DHS in the disaster area went by the wayside. Rick Skinner, the Inspector General after Hurricane Katrina hit, decided to refocus his efforts on that by taking some of the resources that formerly worked on disasters that were shifted elsewhere and putting them back on that disaster office. And effective October 1st, he will be creating a disaster oversight office that not only handles Katrina work, but any other disasters ongoing.

In the President's budget in fiscal year 2007, there is $11 million in the budget for that sort of core function to continue on.

Mr. PLATTS. And that will be a permanent office he is——

Mr. JADACKI. Correct. That will be a permanent office to handle that. Again, it is fashioned very similar to what was being done during the FEMA days.

Mr. PLATTS. Mr. Donohue.

Mr. DONOHUE. Mr. Chairman, in my experience in the September 11th disaster up in New York, my colleagues here as well, we took a proactive approach to addressing those matters and went in with Lower Manhattan Development Corp. with both auditors and investigators. That takes people, and what happened was it was

worth its weight in gold, as far as I was concerned. It was easier in the fact we had a New York office. We had it fully constituted.

The whole matter is different in the Gulf States. Other than the fact all the people are displaced, it is a much larger area to go. Fundamentally, to get people to move down there and the relocation that requires it and so on and so forth does have unique issues that have to be impacted. And we again are looking forward to some support on the supplemental side to augment that.

What we did do is we sent our managers down right away and tried to provide the services, but, again, I think as I indicated in my testimony, the sheer volume of dollars, we are going to have a long-term commitment for some time with HUD.

Mr. GIMBLE. Mr. Chairman, we actually pulled our resources around and realigned, reprioritized. That is the short term, as has been pointed out.

Interestingly enough, and it is not just the disaster recovery, but we had just completed a workload assessment of DOD IG, and we completed it in December. At the same time we were doing the realigning, so it has some impact, and this is not totally the Katrina issue, but it is just another part of it.

And what we believe is over the long term, we are about 70 people short of what we need to do primary mission, and we have made that case throughout the various committees and throughout the Department. We are hoping to get some relief on that. We do not envision having a group just solely dedicated to disaster recovery. We have a lot of priorities, one being the—obviously, we have a war going on in the Southwest Asia theater, and we have to react to that, too. That is a very high priority for us.

So we have a number of competing priorities, but if you look at this over the long term—and we believe it is going to be a long term. What kind of goes unsaid, DOD does not appear to have that big an issue in Katrina recovery. The fact is that about half of the money runs through DOD to the Corps of Engineers, so we have a huge responsibility. It will be a long-term commitment. And the supplementals are great. They are helpful in the short term. But if you are looking out over a 5 or 10-year period, we probably need more relief on a more permanent basis.

Mr. THORSON. We were fortunate to receive $5 million in supplemental funding for this disaster area oversight, and we decided to use this primarily to establish, as I mentioned in my opening statement, a regional office headquartered in New Orleans. We have to find the balance between hiring the people that we need to do the job versus making this money last as long as we can. We have been very careful in analyzing that, and we believe that we will probably extend the use of those funds for about 4 years.

Due to the fact that we are not a first responder, primarily, and that our investments are primarily a lot longer term, we anticipate a presence for anywhere from 5 to 10 years, and the best way to extend past our 4 years is to produce results to the Congress that demonstrate that supplemental was a very good investment. And that is how we intend to come forward again if the need is there to have further funding.

Mr. PLATTS. One of the important aspects of the approach that has been taken is this coordination with the departments and

agencies and even within agencies themselves between IGs and managers and being proactive. And so we want you to be proactive, but as IGs, you have a responsibility of maintaining an independence as well. I would be interested if one or any of you would like to comment on how you are balancing those two responsibilities to work with your department senior management, and your financial leaders in your departments and agencies to be proactive preventing fraud, but at the same time, you know, not compromising your independence from the department itself.

Mr. JADACKI. One of the things that early on OMB required some of the agencies receiving significant amounts of money was to put together what they call a "stewardship plan." The Department of Homeland Security did put together a stewardship plan in two particular areas—one on internal controls, how are they going to establish internal controls to ensure accountability over the funds; and the other one over procurement.

There is a weekly meeting with the Under Secretary for Management and her staff and procurement staff and CFO staff from both the department level and at the FEMA level. Rick Skinner and myself participate every week in that meeting. We advise. Things come to our attention, and I will give you an example. We found some potential duplication in some of the work we did on some of the oversight efforts by some of the States that were receiving management grants from FEMA to provide auditing services and those types of things. We brought it up at that meeting. They took immediate steps to review the management grants going out there, and they did find, in fact, replication and duplication, and they significantly scaled those things back.

So we are providing advice, guidance. We are bringing things to management's attention that may not warrant a report, but, you know, we are bringing it to their attention and we are taking—you know, they are taking it seriously and they are taking immediate corrective action. And we continue to provide that on a weekly basis.

Mr. DONOHUE. I think HUD may be a little different in the sense that the money will leave, past the Federal Government down to these development authorities in those respective States. So what I am tasked to do is not only just work with the Department as far as the question of waivers, but also to work with those authorities, because they will make those determinations, those tough decisions.

What we did is we have taken a very proactive approach in dealing with those authorities. We sent people down. We are interfacing training. We are doing instruction with regard to educating, appraise—look for the red flags, I mean to educate these authorities to understand as to what they need to do to make sure this money is disbursed.

We called for—and my colleagues here, we participated with the State auditors, simply getting them all together, sitting down, and talking about common issues.

Another thing that came out of September 11th which I found interesting is that as a result of us getting engaged, the Lower Manhattan Development Corp. hired up through their administrative costs monitors, the idea of having people there that have an exper-

tise in those areas to watch closely as far as how that money is distributed on a local level. And I am optimistic, the fact that they will go back and do that. They look like they're moving in that direction, certainly in the one that has been approved, and that is the case at this point with Mississippi.

Mr. GIMBLE. I think we normally in the IG community, since our mission is to detect and prevent fraud, waste, and mismanagement, our audits are typically aimed at some steps to identify fraud indicators. Also, you have lessons learned and there is a lot of audit work done in the contract world before the award of the contract.

In other words, if you see a contract being in an RFI State and you look at it and you determine that there are some things that are not built into that should be built into, in many cases we will make recommendations to management to incorporate that before they go out. If you have contracts that are not being properly competed, you also can make some recommendations on that. So I think as a normal course of business, we do a lot of proactive work and fraud and deterrence.

The other thing is that we have a fraud awareness briefing that we do. As I said earlier, we gave 34 presentations on that in the Gulf Coast area to the Army Corps of Engineers contract folks and some of the contract administrators, just to make them aware of potential fraud issues as they do their normal duty.

So we think we are fairly proactive in that, and I think that is probably typical of most of the IG community.

Mr. THORSON. For SBA, we really believe the proactive approach does not, in any way, hinder the OIG independence. Being proactive can prevent fraud and waste from occurring by working with the agency to identify trends and to change any program deficiencies that could allow waste and fraud to occur.

For example, fraud awareness briefings, developing training materials, quickly bringing to the agency's attention those kind of things that they can react to expeditiously that could prevent, as opposed to catch the fraud afterwards. We would much rather come before the Congress at later times and tell you what we think that we prevented. Even though that's very subjective, we would much rather do that than tell you we prosecuted 27 cases of fraud.

Our mission is to prevent. But in no way do we believe that hinders our independence, either.

Mr. PLATTS. Great. Thank you.

I want to yield to the ranking member, but one question before I do, just Mr. Donohue specifically because of that proactive approach that was mentioned across the board of the panelists with that last question.

Specifically to the Mississippi Development Authorities and, in your testimony, the issue that they see their responsibilities and their proactive approach differently than you do and I think maybe all of us here do, of how far that oversight should go. And they're seeing kind the checks handed over as they're done.

Can you give us an update on that? And what's your ability to encourage them to take a different approach? We want to see the actual outcome achieved, that money is being given for.

Mr. DONOHUE. I think we're speaking about compensation, is my term was, Mr. Chairman. I think it's right on the money. It really

comes down to the question of our ability to oversee. The way it's designed is a substantial amount of that money is designed to be compensated to the homeowner. And I have—at the end of the day, when those folks receive that kind of money, in reality they have full discretion to do whatever they want.

And my concern is simply this: I've been down myself to Biloxi and Gulfport in the affected areas. Some elderly woman that receives this kind of proceeds after the mortgage is taken care of and whatever is left and for whatever reason decides to go back and use that money for unintended purposes and finds no home left and finds no shelter left. And therefore is left with having to apply to the State for additional funds to maintain oneself.

And also to the chance that area can remain in blight because there has been no corrective action taken on the part of the homeowner. So I am concerned.

We have talked to the States. We have talked to the Attorney General, the State Attorney General, in regard to that very question. He would envision that as being a consumer fraud violation at that point when they receive that funds. But it, at this point, does not appear to have a Federal nexus with regard to that moment.

It's really buyer beware. It's receiving that money for whatever they feel the proceeds should involve.

Mr. PLATTS. Thank you. I yield to the ranking member for questions.

Mr. TOWNS. Thank you very much, Mr. Chairman. Let me begin with you, Mr. Thorson. How do you keep the big guys from eating up the small businesses? The big guys from eating up the little guys? How do you prevent that from happening?

Mr. THORSON. Actually, as I mentioned, that's one of our prime concerns and we have published this review guide to do that. There is a number of different things, one of which is to make sure that when these large contracts begin to really develop, and I don't think they have as yet, is to make sure that all of the IGs for the various agencies, not just SBA, are armed with the tools to be able to determine whether they have followed the right procedures. And some of them can be very involved.

But to answer your question very generally, I'd say that the first thing we would do is follow the review guide that we have published in order to accomplish just that.

Mr. TOWNS. What about penalties? Are there penalties, offenses, if all of a sudden you find that you call yourself awarding a small business a contract and then you find that a big business is really doing the work? Is there any penalties involved?

Mr. THORSON. There are, especially for misrepresentation. There are actually criminal penalties in the statute, yes. For a large business that intentionally and clearly represents themselves as a small business in order to achieve a certain contract, yes.

Mr. TOWNS. Let me just sort of go down the line asking you all. Do you really feel that the coordination now that's in place is sort of making certain that we are on top of the situation? Let me start with you, Mr. Jadacki, and come right down on the line. Do you really think we're on top of this now?

Mr. JADACKI. Are you talking about the oversight coordination?

Mr. TOWNS. Oversight coordination, yes.

Mr. JADACKI. Yes, I believe it is.

If you look at the money, and I talked about it earlier on, about the money that FEMA provided other Federal agencies, there's at least at last count about 54 Federal agencies that got money in some shape or form just from FEMA. And this was before the supplemental appropriations came along.

We really have to rely on the expertise of the Inspector General's in each of those agencies because you just can't have one person or one entity coming in and expecting to understand each and every program.

So I believe that working with—and if you look at some of the data we've compiled and some of the reviews that are coming out, I think the Inspector Generals are doing a good job at sort of getting a handle on and overseeing some of the activities here.

Again, you're looking at $100 billion. You're looking at hundreds of thousands of victims. You're looking at a plethora of programs out there. Catching everything out there, I think, is just going to be impossible. But we're looking for some of the high risk things.

For example, we're working closely with the other IGs to try to identify some of the high risk contracts. We're looking at some of the high risk type activities that we traditionally see. Debris removal we know, based on past history, is a very high risk program. It's ripe for fraud, waste and abuse. And we're already finding, as Alice Fisher pointed out, we're finding cases like that.

But just given the sheer size of the disaster, it's going to be difficult to cover everything.

But I think, in general terms overall, I think the IG community is doing a very good job.

Mr. TOWNS. Thank you very much.

But let me just ask this. I've heard, and I don't know whether it's accurate or not, but I would ask staff to just sort of further look into it, that there's 18,000 trailers that are not being used?

Mr. JADACKI. That's correct. They're manufactured homes. FEMA purchased 24,000 manufactured homes. And those are different from travel trailers which have wheels and are actually very mobile. The manufactured homes are sort of permanent structures you would bring in.

Yes, they were purchased. And the concern we identified in our review is that they're sitting at an airfield in Hope, AR, just waiting to be used.

Now the problem we have is there was a lack of communication and, I think, a control breakdown at the programmatic level where FEMA bought all of these things with the good intent early on that they're going to house disaster victims. What they didn't realize and where the breakdown was, was that FEMA regulations preclude using these manufactured homes in flood plains. In most of the affected area where these were intended to go, they can't be used because of FEMA's own regulations.

So we're looking at a major control breakdown there because people weren't talking, people weren't communicating. Yes, you're right, they are sitting there. We spent hundreds of millions of dollars for these things that we hope we'll be using for future disas-

ters because they certainly can't be used for this particular disaster.

Mr. TOWNS. Let me just say this, that's a real concern. I just feel that somewhere along the line the communication is just not strong enough for us to be able to be efficient and be able to make certain that there's no fraud, waste and abuse. And I hear you have the Task Force and that you meet and I keep hearing that. But it seems to me that something is missing there and that, as a result, there's a lot of waste.

I hope I'm wrong, I hope I am. But I think about the fact that most of the money is yet to be spent. And I think really you need to be tightening it up to make certain that we don't waste—and this goes down another line. I'm sorry. But I have that concern. And that when you hear things like that, you wonder are you in a position to catch the crooks?

Mr. DONOHUE. Mr. Towns, I would just comment that I applaud the commitment of my colleagues here. I've been in this business about 4½ years and before that law enforcement. These people stay busy. And my folks in my organization are quite busy with what they do in handling fraud oversight.

But I can tell you what I've seen here, in my personal opinion, between the Department of Justice and what Ms. Fisher said, and my working closely with my colleagues in the FBI, that I've seen collective effort and work to address these cases. I think we're doing is we're preventing duplication of sorts. I think we're addressing our audit concerts collectively.

I tell you, I saw the success of it in the disbursement of funds in September 11th, the disaster in Lower Manhattan. I saw it work. And I think that's what we're trying to mimic here, is the success.

We pushed out, HUD pushed out about $2 billion or $3 billion. And that was a charged situation down there. But I really believe that we did that successfully. We met, we talked about it, became a plan of action.

I must tell you, the local and State organization involved were so successful in doing that. I think that's what we'll try and hopefully bring to this, is the State participation. They have such a stake here in our role that we can work collectively. I think we're off to a great start.

Mr. TOWNS. Thank you.

Mr. GIMBLE. Mr. Towns, I think—I would like to add another dimension to this. I think we, in the IG community, are a very important and integral part of the oversight. I also think there's a bigger piece of it out there that is actually the management. In other words, you've got your contact administrators that detect the double billings and so forth.

You have the community at large that has the allegations that they make to hotlines where we have leads.

We are obviously not staffed to have 100 percent coverage to stop all waste, fraud and abuse. I think that would be impossible.

But I think where our concentration is and what we do is there is a system of internal controls that are made up of a number of things.

The challenge is to make sure that those are being properly followed. You can make tweaks on them. You can probably improve the actual systems themselves. But more importantly, we need to be cognizant, and this is where we do our risk assessment. Where are the potential breakdowns in the execution of the existing control systems? So I think that's where we get a lot of our work.

But we're only a part of the solution. A big part of that is on the management side. So I think when you look at the overall oversight of this, you probably should also consider that there's more than just the IG community and the law enforcement community.

Mr. TOWNS. Thank you, very much.

Mr. THORSON. Mr. Donohue mentioned he had been there 4½ years and I have been at SBA 4½ weeks.

But in that short period of time I will tell you I have seen the effects of the coordination in all of these offices. For instance, I mentioned the interface between the SBA computers and the FEMA computers. That sounds rather technical and doesn't really tell you much. But the truth is when you can work out problems like that, you assist many, many people who get dropped out of the system for one reason or the other because of the lack of a proper interchange.

We work with HUD on individual benefits to make sure that the agencies don't duplicate payments. There's a whole list of things like that. But the truth is the coordination does work and it's very effective.

Mr. TOWNS. Is there anything that we need to do on this side?

Mr. DONOHUE. I would just comment, sir, that I think your oversight and bringing us up to ask these questions is important. I think also one thing I would ask is that whatever funding is multiple year funding, money, so that we can do that as far as effectively plan our strategy. I think one of the greatest concerns is trying to hire up and then come down, and so on. Keep that balanced and maintain that kind of work force to do that.

So I do appreciate and applaud your interest in seeing as to whether we have the resources that we require to do what we have to do.

Mr. TOWNS. Thank you very much, Mr. Chairman. I yield.

Mr. PLATTS. Thank you, Mr. Towns.

Mr. Donohue, I wanted to ask on the timing issue about those who have claims and the $9 billion that has been approved and the $1 billion that's been dispersed. Actually, I guess that number is Mr. Thorson with SBA.

I guess for both SBA and HUD, as far as funds that are going to be given out, what's the timeframe to make a claim? And once a claim is submitted and approved, how quickly do you have to draw down? What's the outside limit?

Mr. THORSON. You don't. As far as the drawing down, that's up to the borrower to do. That's part of what we've made an effort to try and clarify, because the agency has taken a few hits about the level of disbursement versus the level of loan approval.

Now there are certainly effective controls in place which do make it—there is more to do after you have loan approval. You have to show that you have the proper insurance. Like any secured loan,

you're going to have to have a legal review before the disbursements.

But the main thing that we're seeing and that I personally saw when I was down there was people aren't sure what they want to do. They're not sure whether they want to rebuild on this particular site or whether they need to wait to find out whether there is insurance available? Are there going to be power companies? Are they going to move back and reconnect?

So they're waiting. And you can't blame them for that. That's probably a very good commonsensical move.

Mr. PLATTS. Is there an outside limit? Once they are approved, 3 years or 5 years? Or can they come back 7 years from now? Is there an end date, as far as trying to predict what your oversight is going to be?

Mr. THORSON. I was just advised it used to be 6 months and now it's open-ended. So they can sit with that loan approval for as long as they want.

Mr. PLATTS. And with HUD?

Mr. DONOHUE. As to HUD, they will come in, homeowners will come into a location center, verify in fact who they are, that they're authentic, and provide certain identification to support that. And what they will do is the application process will begin shortly in Mississippi, at which time the checks will be issued, I've been told around September. And to answer your question, it is open-ended.

Mr. PLATTS. What type of procedures maybe again, especially HUD and SBA, are in place to ensure the identity and to really avoid the fraudulent interactions or transactions? What do you go through? How do you do the best possible guard against the fraudulent conduct?

Mr. DONOHUE. Well, I'll tell you, we've sat down with—and of course, in this manner it's Mississippi as far as their approval process is concerned. The other ones are yet to be approved.

What we're asking of them, when they come in to me for verification, they have to come up with the true data information that supports that they're the rightful owner, that they own this property clear. Of course, in my case—I should say, in many of these mortgages, there will be mortgage pending. There will still be loans outstanding. And they will have to address the issue of whether there's still a pending mortgage they have to resolve with regard to that mortgage company. There's a matter of insurance claims that has to be coordinated with regard to that matter, as well.

And a decision, ultimately a decision as to whether they're going to stay and rebuild or relocate.

So I think the idea is to set up centers for these people to come back and apply for this stuff and require the kind of information.

I suspect that just by the homeownership itself that these centers should have more than enough adequate information. That's what we're working with, talking to them to make sure they do that information to authenticate the claims that has been applied.

Mr. THORSON. The same is really true for us. Being that these are loans, you not only have title searches, you have a loss verification procedure. And of course, you have a credit check, as well. The people that are getting these loans, it is expected that they will

repay these. So there is a substantial amount of checking that is done before the actual approval is done.

And then, as I mentioned, there's a final legal review before any funds are dispersed.

Mr. PLATTS. With SBA and HUD, and maybe more so already with DHS and FEMA, is there evidence that the controls in place for those who have already gone through the process are working to keep people from trying to come in and fraudulently work their way through the process?

And I guess maybe a specific question would be do you know what percentage of applicants for any of the forms of aid have been rejected once their review was conducted?

Mr. JADACKI. In DHS, FEMA had some pretty what I call strong controls in place. What happened, they were overridden and circumvented in some cases. So it allowed folks to defraud the system.

In some cases, a simple control like a Social Security number was not validated to make sure that it was an existing Social Security number. We found cases where applicants received funding or individual assistance funds with a Social Security number of a deceased person. In one case, we found all zeros as the Social Security number. And we found one individual that received 12 forms of assistance by just adding sequential numbers onto a Social Security number.

In other cases, we found controls were in place depending on how you applied for assistance. If you applied over the Internet, it did check the Social Security numbers. If you called on the phone, those controls were dropped and it would automatically generate check. So in some cases the controls are there. They're just overwritten and circumvented because of the expediency of getting the assistance out.

We're following up. There's been about several thousand repayments already. Again, it's hard to identify because FEMA collects the money back. They've collected about $8 million. Whether it's because when there's arrests the media still has a big interest down there. You still see, when people arrested, they are on the front page of the news. The media has been real good about putting them on TV and publicizing. And traditionally people see that and they will turn in checks voluntarily.

We've got a number of public service announcements saying that we're going to pursue any type of fraud. We're trying to get a gauge on that.

Right now FEMA is in the process of actually matching up to look for duplicates. If you see a check for two people, two different Social Security numbers or different addresses, they are sending bills for collection to pursue those. So we are working closely with DOJ on that.

As far as a percentage, I don't know yet. We still need to complete our work on that. But given the fact there's over a million applicants for individual assistance alone, the numbers are staggering.

Mr. PLATTS. Is there anything with HUD or SBA, just a rough number that have been rejected that have thus far come in?

Mr. DONOHUE. We do not have any, sir, at this point.

Mr. THORSON. No, sir.

Mr. PLATTS. The initial month or I guess 2 to 3 months there was this kind of waiving of controls because of the urgency and the conditions of those in need and just trying to get the money out.

That recovery effort that's going on, those letters that are being sent out, is there evidence so far of how successful they're being? The $8 million, I understand, was really not money that was pursued but that came back voluntarily; right?

Mr. JADACKI. Correct. It came back voluntarily. That's typical—and this is typical in any disaster. There's going to be a number of applicants that you're going to have to send bills for collection, either through a clerical error or things like that.

I don't know what the exact amount is. I know it's going to probably get into tens of thousands of letters that go out asking for that money back for whatever reason.

Mr. PLATTS. That you've identified?

Mr. JADACKI. Right. But FEMA is actually going through and identifying those duplicate payments on their own. They're not the result of IG work. And that's a good control that should be in place. They should be going back, now that the crisis period is over, and re-examining and doing the checks on that.

One of the important things I mentioned early on is the fact that the Federal Government has a lot of data, they're the repositories of a lot of data. Social Security has the Social Security numbers of folks. There's checks that should be done there.

We found checks going to addresses that never existed. But the Postal Service has those checks. So we are making the aggressive effort right now to try to find ways that not only the IG but the programs within the HUD programs, the FEMA programs, can actually share data and kind of facilitate that.

So again, in the future, we can sort of prevent these things and get some basically rudimentary controls in place to prevent a lot of these things from occurring.

Mr. PLATTS. That was going to be my followup. has there been recommendations that you've made or the various IG offices for that initial stage, to allow the aid to be given in a fast manner but to have some basic controls? Have we been able to assimilate what happened and make recommendations? We're going into hurricane season in 2 weeks, hurricane season starts again, in case it's needed there.

Mr. JADACKI. As soon as we identified the problem with the registration we sent out a management advisory letter immediately, saying stop, get the controls back in place. This has to stop. So those controls are there. Again, it's trying to get information.

Validating addresses is a pretty simple thing, there's an address there or not. And there's private sector companies that can probably do that, too. So FEMA needs to explore and probably some of the other programs in the Federal Government need to explore ways to sort of validate those things.

And a lot of the things can be transparent. It doesn't take weeks to do that. We understand the need to get money out quick, but it has to be balanced with the need for internal controls and accountability. And we are trying to think of ways or work with the other agencies and FEMA to find ways to prevent these things up front, while not delaying the assistance that the citizens need.

So more to come. We expect to have some reports out this summer on how we can effectively do that. Our goal is to get something in place. But we can have agreements in place before the hurricane season. When it hits, this is the type of information we need to validate or run against it. There are ways, working closely with Justice, to do these types of agreements that are in compliance with the Privacy Act and the Computer Matching Act.

Mr. PLATTS. Those discussions about having those agreements, they're ongoing but the agreements are not yet in place?

Mr. JADACKI. That's correct. I know there's at least one agreement that HUD is working with FEMA to collect data and that's progressing. Alice Fisher mentioned before about the access to FEMA's data base, the NEMIS data base. That has progressed. Now we're looking at how we can expand that to other agencies.

Because every disaster you're going to have similar situations. People are going to get individual assistance. There are going to be checks going out. So it should be some sort of standard thing that's negotiated prior to the hurricane season or should be ongoing whenever there is a disaster. And were trying to sort of—we're trying to facilitate that process right now.

Mr. DONOHUE. Just data matching is very important to HUD. I'm so glad that Matt spoke about it. I'm glad to mention that as of recently as today, FEMA and the HUD OIG and DHS have sat down and tried to address these very issues.

As you all know, we're not first responders, HUD. So it's absolutely important for us to have access to that information and find out who may be the wrong doers were, to prevent the ineligible people or the people who are not a resident or received payments of some sort, to get that, capture that.

It's a little different than what I think Ms. Fisher was referring to, as having criminal records and so on. This is more information to know as to whether these people have already done it to you first and now they're coming back the second time. And that to me is so valuable and we look forward, we really look forward, to receiving that information from FEMA.

Mr. PLATTS. I've got a couple more I'd like to touch on.

Mr. Jadacki, one of our visits was the debris removal and what's already occurred, as well as the huge volume of debris yet to be removed. And some of Ms. Fisher's testimony and in the written testimony is about the evidence of corruption that was uncovered and is being prosecuted.

Are there things we need to do differently? Or is it just in this case there's controls in place but human greed is what's trying to circumvent those controls? Or is there other controls we need to put in place because it's a huge sum that's still going to be paid out with the debris that still remains?

Mr. JADACKI. I mentioned earlier on that the area—the affected area is about the size of Great Britain, which is a significant area. So debris removal has always been a major issue, something we try to keep a close eye on. Again, given probably the thousands and thousands of debris trucks that are out there, the type of debris and those types of things, having debris monitors almost everywhere from the onset was very difficult.

In the early phases, the first 72 hours is what they typically refer to as the response phase, the focus is really on opening roads, emergency access roads and those types of things to allow vehicles through. In a lot of cases, there's not enough time for the national contract through the Corps of Engineers so we have to rely a lot on locals to provide that and we'll reimburse. So we're sort of at the mercy of what the locals are doing. We have to rely on them.

Again, there's a State oversight responsibility, too, because the FEMA money goes through the State down to the locals.

What we found early on was that a lot of the monitoring, the typical things you would see, were just not there. You would normally want to see towers there. You would like to measure the trucks. You would like to see whether the loads are full, the type of debris that comes in, and those types of things. I think in a lot of cases that wasn't there.

I know as things have calmed down and again the crisis phase is over, we're seeing more and more of the oversight. And I know the Corps admitted that they're providing more and more staff on there. But I think in this case they were just simply overwhelmed.

There's other ways you can actually check, besides looking in a truck. I mean, you can take the number of load tickets, for example, go to the debris site and say OK, well they brought 10 loads of debris in, we should have a bigger pile or a smaller pile than this. There's ways to go back and double check that. And when we do our audits, we actually do some of the alternative or innovative ways to do those types of things just to double check.

But I think the most critical thing is having monitors onsite checking those trucks as they come in. The problem with inflated load tickets or false load tickets, the temptation is there. And it's real difficult if you just don't have those folks onsite. I think now there should be no excuse. Early on it may be difficult to keep an eye on those things.

And we did find some cases in debris removal. For instance, one of the towns in Mississippi, a company came along and said we're a nonprofit organization. We'll remove your debris for free. And not knowing any better, they did it. And then several months later, a bill comes in for $750,000 for their free debris removal. So there's a lot of people in the wings, a lot of unscrupulous folks out there waiting because people panic, there's a lot going on. They want to be reactive to their communities. And they're being taken advantage of. And unfortunately, in these cases, we may or may not be able to reimburse some of those folks.

Mr. TOWNS. I guess you were reimbursing them for the gas.

Mr. JADACKI. That would be expensive, these days.

Mr. PLATTS. We want that price to come down, right?

Mr. JADACKI. Right.

Mr. PLATTS. I want to ask, with the Army Corps, I know you're very involved with that debris removal, as well.

Mr. GIMBLE. I think, just to add on to what Matt just told you, actually when this started, the contracts or the contract administration weren't in place so we didn't have advisers or overseers. That lasted just for a few days. And some of these issues came up because we didn't have monitoring folks in place, we didn't have the watchtowers in place.

So they've made recommendations to get that fixed. The Corps of Engineers has taken that to heart and they're doing that. We think that's going to be a better news story, maybe not a good news story but a better news story.

And also I would just add that the Army Audit Agency is doing an extensive audit of the whole process to go back in, probably looking at some of the trip tickets and such as that.

So I think that was the—the bottom line of that is it was a problem early on, just by the nature of it. It will probably be a problem throughout. But it's in much better control now.

Mr. JADACKI. I just want to add one thing real quick. We have had some discussions with the Corps and we think they have it under control.

But debris removal process is done two ways. A State or locality can either select the Corps of Engineers to do it, or they can do it themselves and get reimbursed under a public assistance grant. So the ones that the Corps are doing we have pretty good confidence. The ones where we're relying on the States and the locals to do, we're not having that element of Federal oversight. We're sort of relying—and a lot of communities are doing a really good job on that. But still, we have to rely on their oversight and check on them periodically.

So I just want to make clear that there's two different ways that we can remove debris.

Mr. PLATTS. Is there a final comment you want to share with the committee, that you make sure we give special attention to? Whether it be some of the legislative issues we've talked about, the Privacy Act or the data sharing, that you want to make sure is on our radar as we go forward to assist you?

Mr. THORSON. I would second the comments made about the data matching. The agreements that have to be approved by each individual agency and by OMB, they're quite time consuming and burdensome. If there is some way that it could be considered that the OIGs be subject to some different approach to that, it would be extremely helpful.

Mr. DONOHUE. I just have something dear to my heart. I'm in the process, on behalf of the BCA and trying to move forward the IG Training Institute. It's something that began about 2 years ago and I've worked very closely with members of this committee.

The reason I bring this up is fundamentally what concept is to bring together the disciplines and we'll have new people, audit investigations, management training and also inspection evaluation folks.

And I think by bringing that collectively together and housing that, I think we have the best and the brightest training, which is what we need. We have to have that.

And I think certainly a situation of this type demonstrated that in disasters that we need that kind of support. And I'll tell you, I just want to say thank you to the members of this committee, the fact that they supported that effort and we go forward trying to do the best we can.

Mr. PLATTS. I think the challenge that was put before you and your fellow IG members and how you responded speaks volumes of the professionalism of the IG community throughout the Federal

Government. And the idea of the IG Institute is maintaining that and furthering it in the years to come, is I think a very important idea that we need to be looking at how to promote. And we will continue to have the level that you have exhibited in this natural disaster in the oversight of the recovery.

Mr. Towns, do you have anything?

Mr. TOWNS. No, I would just like to associate myself with the remarks you just made. Thank you very much.

Mr. PLATTS. We again appreciate all four of you and your staffs for your preparation for the hearing and your testimony. And again just day in and day out, the jobs that you and your staffs are doing. If you can convey our committee's thanks to all of your staff, many of whom have relocated with probably little notice to be in the Gulf Coast region and performing in admirable fashion and are really out there looking out for the best interest of all Americans, and especially those in need in that region.

So we appreciate you conveying those words of thanks to them.

We'll keep the record open for 2 weeks for any additional information you would like to submit.

And with that, this hearing stands adjourned.

[Whereupon, at 4:12 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Edolphus E. Towns and additional information submitted for the hearing record follow:]

STATEMENT OF CONGRESSMAN ED TOWNS
HURRICANE KATRINA OVERSIGHT
MAY 10, 2006

Mr. Chairman, I thank you for holding today's hearing to review the role of our agency Inspectors General following Hurricane Katrina and other natural disasters. I welcome our witnesses today, and would like to thank them for their hard work and dedication since our recovery efforts along the Gulf Coast began.

I should begin by stating for the record that the economic costs of events like Hurricane Katrina are in many ways an afterthought when compared to the intangible human suffering displayed in the wake of the storm. Many Americans displayed their kinship with our brothers and sisters in many different ways, perhaps by donating money, taking in displaced family and friends from the region, or through volunteer efforts coordinated by many in our non-profit and corporate communities. With an estimated $200 billion cost for rebuilding, however, the need for stringent oversight of both public and private expenditures is crucial to the mission before us.

To date, approximately $85 billion has been appropriated by Congress for relief efforts, including $36 billion for FEMA operations and $22 billion for agency contracts. While more help is on the way from Congress, recent investigations have uncovered significant amounts of waste, fraud, and abuse in both

relief and rebuilding activities. Some examples include excessive billing for waste removal services, inadequate oversight of housing expenditures, and lax controls in place to certify applicants for assistance programs at FEMA. Despite all of the resources allocated to recovery and relief efforts, our agencies failed to demonstrate appropriate stewardship of their funds, and have jeopardized the long-term success of our rebuilding efforts.

Much to their credit, the IG community, in partnership with DOJ's Hurricane Katrina Task Force, has dedicated significant time and resources into investigating and preventing fraud in the rebuilding process. To date, the IG community has approximately 600 personnel dedicated to recovery oversight, and the DOJ Task Force has brought charges against over 200 individuals for fraud related activities. While this is a good start, there remain significant obstacles ahead due to the size and scope of this undertaking.

While we all recognize that projects of this size are imperfect exercises, the future of the Gulf Coast is dependent upon us allocating resources as effectively and efficiently as possible. Thus, it is my hope that we can learn from our previous mistakes and become more effective stewards in our future rebuilding efforts. The citizens of the Gulf deserve nothing less.

Mr. Chairman, this concludes my statement.

109TH CONGRESS
1ST SESSION

H. R. 3810

To establish a Special Inspectors General Council for Hurricane Katrina.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 15, 2005

Mr. PLATTS (for himself and Mr. TOM DAVIS of Virginia) introduced the following bill; which was referred to the Committee on Transportation and Infrastructure, and in addition to the Committee on Government Reform, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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A BILL

To establish a Special Inspectors General Council for Hurricane Katrina.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SPECIAL INSPECTORS GENERAL COUNCIL FOR HURRICANE KATRINA.

(a) ESTABLISHMENT.—There is established in the executive branch a Special Inspectors General Council for Hurricane Katrina (in this section referred to as the "Council").

1 (b) MEMBERSHIP.—The members of the Council
2 shall be as follows:
3 (1) The Inspector General of the Department of
4 Homeland Security, who shall act as Chairman of
5 the Council.
6 (2) The Inspector General of each of the fol-
7 lowing entities:
8 (A) The Department of Defense.
9 (B) The Department of Agriculture.
10 (C) The Department of Health and
11 Human Services.
12 (D) The Department of Housing and
13 Urban Development.
14 (E) The Department of Transportation.
15 (F) The Small Business Administration.
16 (G) The General Services Administration.
17 (H) The Environmental Protection Agency.
18 (3) Such other members as the Chairman of the
19 Council may appoint as determined necessary.
20 (c) FUNCTIONS.—
21 (1) IN GENERAL.—The Council is designated as
22 the principal interagency forum for ensuring appro-
23 priate and effective oversight of and accountability
24 for the expenditure of funds relating to recovery
25 from Hurricane Katrina.

1 (2) SPECIFIC RESPONSIBILITIES.—The Council
2 shall perform functions that include the following:
3 (A) Facilitate the immediate opening of
4 Council offices in the Gulf Coast region, with
5 auditor and investigative personnel detailed and
6 deployed immediately as needed.
7 (B) Establish hotlines and websites to re-
8 port waste, fraud, and abuse.
9 (C) Provide continuous monitoring and re-
10 porting relating to the recovery efforts to the
11 heads of the Federal entities that are members
12 of the Council and to Congress pursuant to the
13 requirements of the Inspector General Act of
14 1978 (5 U.S.C. App.)
15 (D) Ensure that each member of the
16 Council listed in subsection (b)(2) effectively
17 carries out the duties specified in the Inspector
18 General Act of 1978 (5 U.S.C. App.).
19 (d) REPORTS.—The Chairman of the Council shall
20 submit to the President and Congress semiannual reports
21 summarizing the activities of the Council.
22 (e) AUTHORIZATION OF APPROPRIATIONS.—There is
23 authorized to be appropriated the sum of $35,000,000 to
24 the Inspector General of the Department of Homeland Se-
25 curity for implementing this Act.

1 (f) TERMINATION.—The Council shall terminate one
2 year after the date on which the Secretary of Homeland
3 Security determines that all Federal funds related to the
4 Hurricane Katrina recovery effort have been expended.

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