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BEFORE THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE

SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS

AND EMERGENCY MANAGEMENT

U.S. HOUSE OF REPRESENTATIVES

OCTOBER 6, 2005

Good afternoon, Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to be here today to discuss the plans of the Inspectors General to guard against fraud, waste, and abuse in post-hurricane disaster relief and recovery.

Overview Of OIG Hurricane Oversight in the Gulf States

On August 29, 2005, Hurricane Katrina hit the Gulf Coast states of Louisiana, Mississippi, and Alabama with Category IV winds and torrential rains. To compound matters, Hurricane Rita hit the Gulf Coast again on September 24, 2005, causing further damage to the State of Louisiana and parts of Texas. By September 9, 2005 and shortly after Hurricane Katrina, Congress passed legislation that provided over \$63 billion to the Department of Homeland Security (DHS) for disaster relief, including \$15 million for the DHS Office of Inspector General (OIG) to oversee the management and expenditure of those funds. Although the Federal Emergency Management Agency (FEMA) is responsible for coordinating response and recovery efforts, it will take the combined efforts of many federal, state, and local government entities to restore the Gulf Coast. Therefore, the oversight task encompasses more than just the DHS OIG. The circumstances created by Hurricane Katrina provided an unprecedented opportunity for fraud and mismanagement, and some estimate that the cost to recover from the storm and rebuild the affected areas could reach \$200 billion and more.

In addition to its own activities related to Hurricanes Katrina and Rita, FEMA tasked other federal departments and agencies through Mission Assignments. Most recent data indicate that FEMA has made public assistance grants to three states¹ totaling \$963 million², contracts to the private sector to assist in the cleanup effort totaling \$1.6 billion³, and has made mission assignments totaling just over \$7.4 billion⁴, with \$2.2 billion for the Department of Defense (DOD) and \$3.5 billion for the United States Army Corps of Engineers (COE). Departments use mission assignment funds to award contracts or provide direct support for response efforts. In addition, some departments and agencies, including DOD, received direct appropriations for Hurricane Katrina activities. We expect more disaster relief funds and direct appropriations for Katrina relief in the weeks and months ahead.

To answer the call for oversight in the face of these unprecedented disasters, my office and other Inspectors General have been working together to coordinate our efforts from the beginning. We are collectively focused on our departments' and agencies' response and recovery efforts and the related disaster assistance spending.

It is important to note the distinction between management's responsibility for planning and operational control of the funds, and the independent IGs' oversight responsibilities. The overriding objective of the OIGs' oversight plan is to ensure accountability and

¹ Alabama, Mississippi and Louisiana.

² As of October 4, 2005.

³ As of September 29, 2005.

⁴ As of September 30, 2005.

prevent problems before they occur. Our plans focus heavily on prevention, including reviewing internal controls; monitoring and advising department officials on precedent setting decisions, contracts, grants, and purchase transactions before they are finalized; and meeting with applicants, contractors, and grantees to advise them of their fiduciary responsibilities and assess their capability to account for the funds. The plans also encompass an aggressive and ongoing audit and investigative effort designed to ensure that disaster relief funds are being spent wisely and to identify fraud, waste, and abuse as early as possible.

The OIGs are currently coordinating their oversight initiatives through the President's Council on Integrity and Efficiency (PCIE), Homeland Security Round Table, and the overall effort will be coordinated with the General Accountability Office (GAO).

Plan Coordination

DHS OIG has developed a plan for oversight of the funds to be spent directly by DHS components. The OIGs of the departments and agencies who account for the vast majority of the initial FEMA mission assignment allocations have also developed plans for the oversight of their respective agency's Katrina spending. To date, the OIGs, collectively, have committed more than 350 auditors, investigators, and inspectors to this combined effort. For example, DHS OIG has already assigned 60 auditors, investigators, and inspectors, and will be hiring over 30 more over the next three months. Over the next several months, the total DHS OIG staff assigned to this effort will most likely increase to approximately 150 staff, as we aggressively hire additional auditors and investigators under limited term appointments.

Many of DHS OIG's personnel are already on the ground at FEMA Headquarters and at the Joint Field Offices (JFO) in Louisiana, Mississippi, and Alabama. In addition, we will be leveraging the OIGs' efforts with those of the state and local audit organizations in the three states plus Florida, which Katrina hit on August 25, 2005. Already, Louisiana's Legislative Auditor and Inspector General have dedicated 36 auditors to review transactions flowing through the state's Office of Emergency Preparedness.

The other OIGs and the GAO also plan to have personnel on site as necessary to conduct their oversight and investigative activities and these efforts will be closely coordinated. For example, the DOD OIG, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Defense Contract Audit Agency, and the defense criminal investigative organizations will employ a cadre of well over 145 auditors, investigators, and inspectors who will provide oversight of DOD contracts, grants, and operations related to Hurricane Katrina relief efforts.

I do not believe that additional authorities are needed to allow appropriate coordination of these efforts. However, it is clear that additional resources will be needed and I will be preparing appropriate requests for supplemental appropriations.

DHS OIG Activities

Within days of Katrina's Gulf Coast landfall, the DHS OIG had a presence onsite at FEMA Headquarters to monitor operations. We quickly increased this staffing level so that we could have a larger presence and monitor operations at FEMA's Emergency Operations Center on a near-continuous basis. Through this presence, we stay current on all disaster relief operations and provide on-the-spot advice on internal controls and precedent setting decisions. Auditors also closely monitor FEMA's assignment of responsibilities and funding to other federal organizations under mission assignments. This effort will be coordinated with the respective agency OIG reviews and will continue through project execution to identify questionable activities early, and thus decrease the risk of misspending while ensuring compliance with federal laws and regulations.

During September, we established offices with auditors and investigators at the Joint Field Offices (JFO) in Baton Rouge, Louisiana; Montgomery, Alabama; and Jackson, Mississippi. The auditors will provide advice and perform proactive procedures related to the JFOs' internal activities to ensure the appropriate control and use of FEMA funds. The emphasis will be to provide a visible OIG presence to prevent misspending on questionable contracts and grants. In particular, the auditors will perform the following functions:

- Oversee contract and grant activities as requirements and awards are developed, an effort that has already resulted in FEMA deobligating \$2.7 million that was erroneously granted to a local sheriff's office;
- Participate in FEMA applicant briefings and kickoff meetings;
- Provide advice on applicants' accounting systems and sub-grant administrative policies, procedures, and practices;
- Oversee FEMA property management to ensure that property and equipment acquired for use at the JFOs are safeguarded against loss and pilferage; and
- Perform audits, as necessary, of contracts and grants awarded by FEMA.

The investigators will coordinate with the respective federal, state, and local law enforcement agencies and prosecutors as part of their "fraud awareness" initiatives. They will also handle allegations received through a single, government-wide, Hurricane Relief Fraud "Hotline." To date, working through the Attorney General's Hurricane Fraud Task Force, we have arrested eight individuals for filing false claims for disaster relief assistance.

Further, I have just selected an Assistant Inspector General for Katrina Oversight with extensive FEMA and OIG experience to manage the overall effort on a full time basis.

Auditing Contracting and Procurement Activities

We plan to maintain proactive and aggressive audit oversight of contracting activities resulting from Hurricane Katrina. Our objectives will be to determine the extent: (1) federal acquisition regulations are being adhered to, (2) effective contracting practices are

being used on these procurements, and (3) the expenditures are necessary and reasonable. Auditors will review the award and administration of all major contracts, including those made in the first two weeks. Particular emphasis will be placed on no-bid and limited competition contracts. Furthermore, each department's implementation of expanded micro purchase authority will be closely monitored to ensure that appropriate federal acquisition regulations and guidelines are being adhered to, and expenditures are necessary and reasonable. Data mining techniques will provide continuous oversight of purchase card transactions to identify spending anomalies for further review.

Monitoring Financial Controls

We will provide oversight of the financial control environment, financial and operational processes, and the effectiveness of internal controls to identify financial reporting issues early at each JFO. Under this effort, where material, auditors will identify, document, and test key internal controls for operating effectiveness to ensure that federal funds are being spent wisely.

Oversight of Public Assistance Projects and other Grants

We are closely monitoring FEMA's Individuals and Households Program (IHP) and, in coordination with HUD OIG, the Temporary Housing Program. Particular attention will be paid to identifying flaws in the application receipt, review and award processes to ensure that only those eligible applicants received public assistance grants. We will also monitor and, as necessary, audit Public Assistance projects and Mitigation projects approved by the States and FEMA. Reviews will start early in project execution and remain ongoing to identify questionable activities early, prevent misspending, and ensure compliance with federal laws and regulations. We will be leveraging our resources by working in partnership with state and local audit organizations. Other OIGs overseeing grant operations will follow similar procedures. For example, DOJ-OIG will be reviewing \$5 million in grants to be awarded by the Office of Justice Programs.

Review of FEMA's Disaster Management Activities in Response to Katrina

DHS OIG has initiated an assessment of FEMA's performance as it conducted its disaster management responsibilities in response to Hurricane Katrina. It will focus on FEMA's preparedness and response capabilities when Katrina struck, as well as some Emergency Support Functions within the National Response Plan for which FEMA has the lead responsibility: Emergency Management; Mass Care, Housing, and Human Services; Urban Search and Rescue; Long-term Community Recovery and Mitigation; and External Affairs. We will coordinate closely with GAO to avoid duplication to the extent possible.

Operating the "Hurricane Relief Fraud" HOTLINE

While each of the OIGs has its own HOTLINE for receiving allegations of fraud, waste, and abuse, a single Hurricane Relief Fraud HOTLINE has been established and is being

widely publicized to avoid confusion and allow for effective screening and follow-up. The DOD-OIG will operate the HOTLINE on behalf of the entire OIG community.

Reporting OIG Progress and Results

Each OIG will be reporting their progress to me, and my office, in turn, will prepare consolidated status reports, which will be posted regularly on our website. Each IG will also be issuing individual reports as weaknesses or problem areas needing attention are identified. “Flash reports” will be prepared and distributed by each OIG when issues and problems that need attention are identified, and more extensive audit and inspection reports will be issued as completed.

Briefings will be provided as and when requested.

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

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

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