

Hurricane Katrina: Waste, Fraud, and Abuse Worsen the Disaster
By Senator Joe Lieberman
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Thanks Madame Chairman. Today, our investigation into what went wrong with the federal government's preparations for and response to Hurricane Katrina turns to an examination of how some of the funds intended as emergency relief for the hurricane's victims were squandered due to waste, fraud and abuse.

It is hard to fathom that criminals would exploit a natural disaster – and undermine its hardest hit victims - by fraudulently applying for benefits or engaging in corrupt business practices. But they do, and have in the case of Hurricane Katrina. Since that is the world we live in, the federal government must remain vigilant against all forms of abuse.

Our witnesses today will describe the unprecedented commitment of investigative resources targeted at Katrina spending. Most of their audits and investigations are ongoing, so it is too early to draw firm conclusions about the extent of the problem. But clearly, too many people were able to exploit weaknesses in FEMA's administration of individual assistance, and as a result, tens of millions of tax dollars have been diverted by petty criminals from those who so desperately need help.

Let's put these preliminary findings in context. FEMA was struggling to cope with the consequences of a catastrophic and devastating storm, and was under tremendous pressure to expedite assistance to hundreds of thousands who lost everything

they had. In its rush to send aid to the needy, however, FEMA failed to implement adequate safeguards to detect and prevent fraudulent applications.

FEMA has been plagued with similar problems in the past, so it is disappointing to learn that basic controls to ensure accuracy and efficiency have not been established.

Last year our Committee conducted an investigation and hearing regarding FEMA's response to the four hurricanes that hit Florida in 2004. We found substantial vulnerabilities to waste and fraud, and in July Chairman Collins and I sent a letter to Michael Brown containing 19 specific recommendations aimed at improving the safeguards in FEMA's programs. In one of our recommendations, we asked FEMA to better target the "expedited assistance" program to ensure emergency benefits were only sent to those with a genuine disaster related need. We will hear today that FEMA has not done enough to develop and implement those safeguards.

I think we have all been struck, over the past few months of our Katrina investigation, by the degree to which preparedness can mean the difference between an effective response and failure. Once a storm of Katrina's magnitude hits, it is too late to devise the proper controls to prevent fraud, waste, and abuse. These controls must be in place ahead of time. If they are not, grave consequences result, as we have seen.

Although audits and investigations of contracts will take longer to complete, we have already heard stories of substantial waste. FEMA has been slow to re-bid the four

major contracts it entered into without competition. And we have received frequent reports of prime contractors charging well above market rates and then paying subcontractors a tiny fraction of that to actually do the work.

We also know that the circumstances are ripe for fraud - given the large sums of money involved, the need to spend the money quickly, and the generally chaotic environment surrounding the storm. These circumstances all existed in the case of Iraq's reconstruction, as well, and we know that Iraqi reconstruction contractors there have committed substantial fraud.

Furthermore, the Department of Homeland Security has never managed procurement effectively, in part because it lacks sufficient contracting officers to do the job the way it should be done. FEMA, too, appears to have been unprepared to procure the goods and services it needed in Katrina's wake in an efficient manner.

The Department of Homeland Security Inspector General, for example, will testify about the ill advised purchase of manufactured homes – costing the taxpayers \$900 million. Yet the homes mostly cannot be used because they are too large and cannot be placed in flood plains.

FEMA employees struggled to provide assistance to the hundreds of thousands in need. No doubt, some fraud would have been inevitable. But based on the information we have so far, I believe we could have done better to stem it. It is crystal clear, and has been since 2004, that FEMA needs to establish safeguards in the administration of its

relief programs. I am grateful to our investigative agencies for their work and I hope they continue to be vigilant against all forms of waste and fraud – wherever it may be found.

Thank you.