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Statement
of
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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 contact 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.