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BEFORE THE

COMMITTEE ON ENERGY AND COMMERCE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

U.S. HOUSE OF REPRESENTATIVES

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Good morning 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 waste, fraud, and abuse in post-Katrina relief and recovery.

Overview Of OIG Hurricane Katrina Oversight

On August 29, 2005, Hurricane Katrina hit the Gulf Coast states of Louisiana, Mississippi, Alabama, and Florida with Category IV winds and torrential rains. By September 9, 2005, Congress had 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 Hurricane Katrina, FEMA tasked other federal departments and agencies through Mission Assignments. As of September 13, 2005, FEMA had made mission assignments totaling just over \$7 billion, over \$6 billion of which went to the Department of Defense (DOD) and the Army Corps of Engineers. 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 this unprecedented disaster, 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. The overriding objective of the OIGs' plan is to ensure accountability and preventing problems before they occur. Our plans focus heavily on prevention, including reviewing internal controls; monitoring and advising department officials on contracts, grants and purchase transactions before they are approved; and meeting with applicants, contractors and grantees to advise them of the requirements 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 waste, fraud, and abuse as early as possible.

The OIGs are currently coordinating through regular meetings of the President's Council on Integrity and Efficiency (PCIE) Homeland Security Round Table, and the overall effort will be coordinated with the Government Accountability Office (GAO) through regular meetings with GAO senior officials.

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 a total of over 300 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 double as we aggressively hire additional auditors 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. 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 100 auditors, investigators, and inspectors who will provide immediate 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 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 the past week, 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 activities as requirements and awards are developed.
- 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.
- 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, OIG-wide, Katrina "Hotline."

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, and each department's implementation of expanded micro purchase authority 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

Financial statement auditors will provide oversight of their agency's control environment, financial and operational processes, and the effectiveness of internal controls to identify financial reporting issues early. Under this effort, where material, auditors will identify, document, and test key internal controls for operating effectiveness.

Monitoring Public Assistance Projects and other Grants

DHS OIG auditors will closely monitor FEMA's Individuals and Households Program (IHP) and Temporary Housing Program, as well as FEMA's approval of Public Assistance projects. Reviews will start early in project execution and remain ongoing to

identify questionable activities early, prevent misspending, and ensure compliance with federal laws and FEMA 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 encompass three of the four major phases of disaster management - Preparedness, Response, and Recovery (with more focus and emphasis being placed upon Preparedness and Response) – as well as some Emergency Support Functions within the National Response Plan for which FEMA is the primary agency: Emergency Management; Mass Care, Housing, and Human Services; Urban Search and Rescue; Long-term Community Recovery and Mitigation; and External Affairs. We will coordinate our review with GAO to avoid duplication to the extent possible.

Monitoring the “Katrina” HOTLINE

While each of the OIGs has its own HOTLINE for receiving allegations of waste, fraud, and abuse, a single Katrina HOTLINE will be established and widely publicized to avoid confusion and allow for effective screening and follow-up.

Reporting OIG Progress and Results

Each OIG will be reporting their progress to me biweekly, and my office, in turn, will provide consolidated biweekly status reports to key Administration officials and Congressional committees. 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.

DHS OIG will prepare regular status reports on the consolidated OIG efforts (initially every two weeks) to key administration and congressional officials. 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 Katrina activities, and to ensure that the affected people receive the full benefit of the funds to be spent on the recovery.

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