Chairman Whitfield, Congressman Stupak, and Members of the Subcommittee:

Thank you for the opportunity to appear before the subcommittee today on the plans of the inspectors general to guard against waste, fraud, and abuse in post-Katrina relief and recovery.

The Department of Commerce is a diverse organization, capable of bringing a broad array of scientific and economic resources to bear both before and during times of need. It was, for example, reassuring that the National Weather Service’s early forecasts of the location and intensity of Hurricane Katrina saved lives. Now, Commerce agencies’ roles in relief and recovery are crucial in helping rebuild damaged ports and transportation infrastructure and in hastening the return of economic vitality to the Gulf region.

The President’s National Response Plan relies on the Department to provide direct support to the Department of Homeland Security (DHS) in preparing for, responding to, and recovering from major natural disasters: from tracking and providing advance warning of hurricanes and other weather-related phenomena to assessing structural damage and costs, from administering developmental and financial assistance to prioritizing the procurement of goods from the private
sector to meet critical needs.

As Americans and the world watch just about every move associated with the government’s post-Katrina relief and recovery efforts, two key points emerge: (1) the federal government faces an unprecedented challenge that demands unprecedented and flexible solutions; and (2) the bureaucratic flexibilities and large infusions of resources that may accompany the rebuilding effort inherently increase the potential for waste, fraud, and abuse. Thus, vigilant oversight of agency efforts by the inspectors general, working cooperatively and collaboratively, is crucial to helping prevent and detect unauthorized activities and expenditures.

I believe that the inspectors general are well-positioned to help in this regard. Each year, for example, inspectors general identify the top management challenges facing their agencies, and hence know their agencies’ strengths, and more importantly, their weaknesses. The President’s Council on Integrity and Efficiency compiles and reviews this information to reveal any trends that may be facing our government. Across all agencies and departments, the areas of procurement, financial and grants management, and information technology security have been consistently cited as vulnerable to waste, fraud, and abuse. Not surprisingly, these are also some of the key areas and means by which government agencies will deliver and manage their relief efforts. These trends combined with the federal government’s need to respond quickly to the urgent economic recovery needs of the Gulf region highlight the importance of stringent oversight by inspectors general.
My statement will briefly summarize the Department’s different roles and responsibilities in responding to emergencies, including some specifics on recovery actions in the aftermath of Katrina, findings from our relevant evaluation of post-Hurricane Andrew recovery efforts and their implications for Katrina, and my office’s oversight role in helping prevent and detect unauthorized activities following this most recent disaster.

**COMMERCE’S EMERGENCY RESPONSE ROLE IS DIVERSE**

The Department plays a critical role in rebuilding and safeguarding economic infrastructure and assisting business recovery, and has thus been mobilizing resources to help the Gulf region recover. The *National Oceanic and Atmospheric Administration (NOAA)* tracks and forecasts weather, and provides advance warning about the potential severity and impact of natural occurrences on the United States. I have been encouraged by Congress’s positive assessments of the National Weather Service’s work in tracking Katrina and providing information before and after the hurricane made landfall. These timely predictions undoubtedly saved lives. Through the years, I have personally met with many of these talented and committed professionals, who are passionate about making accurate predictions to help victims prepare for and recover from weather events.

But NOAA plays a much broader role in economic recovery post-Hurricane Katrina: surveying ports and waterways via aircraft and satellite imagery to assess damage and assist vessel movement, helping federal and state agencies mitigate environmental hazards, and conducting
salvage operations. In addition, stewardship of our ecosystems is critical during emergencies, and NOAA is assessing the hurricane’s impacts on habitat and fisheries in the Gulf while at the same time reviewing options to ease regulatory burdens on commercial and recreational fishermen. To date, NOAA has received over $2 million from DHS for recovery efforts.

The Economic Development Administration (EDA) works in partnership with state and local government, regional economic development districts, and other entities to help communities address problems associated with long-term economic deterioration as well as recent, severe economic dislocations such as those the Gulf region is undergoing. EDA administers a diverse range of grants programs and funds infrastructure and business development to induce private investment in the types of business activities that contribute to long-term economic stability and growth. These programs are likely elements in any comprehensive economic recovery effort and have great potential to assist in the current situation.

The National Institute of Standards and Technology (NIST) is at the forefront of the U.S. government’s efforts to develop and promote measurement, standards, and technology to enhance productivity, facilitate trade, improve quality of life, and bolster national security. As part of the federal government’s National Response Plan, NIST, for example, is working with the Federal Emergency Management Agency (FEMA) to assess structural damage in the Gulf area. Through the Hollings Manufacturing Extension Program, NIST also plans to review the impact of the hurricane on small manufacturers in those areas affected by the storm.
The **Bureau of Industry and Security (BIS)** must assure the timely availability of industrial resources to meet emergency preparedness requirements under the Defense Priorities and Allocations System Program (DPAS). DPAS allows the Department to prioritize the delivery of critical resources from commercial sources to ensure that federal and private sector entities can support recovery operations during emergency situations. BIS is using DPAS authority to assist with critical infrastructure restoration projects related to the Gulf’s recovery. In addition, FEMA has been delegated authority to use BIS’ DPAS regulations to place priority contracts for materials, services, and facilities in support of Hurricane Katrina recovery operations, including rescue, medical, health and sanitation services; essential debris clearance; and immediate repair or restoration of damaged vital facilities.

The **Bureau of Economic Analysis (BEA)** produces economic accounts statistics that enable government and business decision-makers, researchers, and the American public to follow and understand the state of the nation's economy. These accounts impact critical decisions affecting monetary policy, tax and budget projections, and business investment plans. Natural disasters like Hurricane Katrina have two major economic effects: destruction of property and disruption of the flow of production, income, and spending. BEA will be estimating hurricane costs as part of the 3rd quarter gross domestic product and other indicators for August and September.

The **International Trade Administration (ITA)**, working in conjunction with DHS, the White House, and other agencies, has launched a Hurricane Relief Call Center to match community
needs with private sector donations or saleable goods. Through access to DHS’ National Emergency Resource Center database and information received directly from the business community, the Department aims to put donors and those in need in direct contact within 24 hours of a match. In addition, ITA recently worked with other agencies to allow U.S. apparel importers to release goods embargoed under China textile safeguard actions for the purpose of providing aid to Katrina victims.

The Office of the Secretary has made coordinating the efforts of Commerce bureaus in responding to Katrina a top priority. The Secretary is holding weekly executive-level meetings during which each bureau head must report on Katrina activities and related expenditures. To its credit, the Department (Chief Financial Officer, Offices of Budget, Acquisition Management, and Financial Management) immediately began working to implement appropriate internal controls and special project codes for capturing and reporting costs related to Katrina. The Department has advised that controls and processes are now in place to track and monitor its Katrina-related program activities, and its integrated financial management system allows for detailed reporting of obligations and expenditures.

ACCOUNTABILITY, OVERSIGHT, AND LESSONS LEARNED

The rebirth of the Gulf region relies first and foremost on the recovery of businesses and reconstruction of vital infrastructure. This process will require an influx of resources and a possible loosening of regulatory processes to expedite the delivery of assistance to communities.
Huge infusions of dollars, coupled with more flexible rules, create an environment ripe for possible waste, fraud, and abuse. Thus, the oversight role of the inspectors general, working cooperatively and collaboratively, is crucial to preventing and detecting unauthorized activities during recovery efforts.

My office has overseen activities related to hurricane relief and recovery before. In September 1998, we issued a report on our evaluation of EDA’s handling of its Hurricane Andrew assistance program. In particular, we examined EDA’s process for selecting projects and its management and monitoring of the projects funded. We focused on issues related to the completion of these projects and, more important, on lessons learned from those activities. These findings provide valuable insight and guidance to direct EDA’s actions in response to Hurricane Katrina, and I have recently shared the report with EDA’s Acting Assistant Secretary and senior Department officials to alert them of our recommendations.

Before I discuss specific issues in that report, it is important to note that in 1992, Congress appropriated about a billion dollars to various federal agencies under the Dire Emergency Supplemental Appropriations Act, including $80 million to EDA to provide disaster relief assistance. When we look at the more than $60 billion already appropriated for Hurricane Katrina relief, coupled with the likelihood of yet more funds being needed for Hurricane Rita relief and rebuilding, valid lessons learned from our earlier report and the ongoing vigilance of inspectors general will be critical.
Much of the billion-dollar emergency appropriation for Hurricane Andrew was aimed at addressing the immediate needs of protecting life and property and providing food, shelter and other basic services. But Congress intended that the EDA monies fund projects for longer-term economic recovery and growth. Following Hurricane Andrew, few restrictions were placed on EDA’s use of the disaster funds and the agency was instructed to “use all existing administrative flexibility to waive local match requirements and to expedite the delivery of assistance to communities.” To further expedite EDA grant-making, Congress appropriated $5 million to supplement the agency’s operating budget.

Between 1992 and 1995, EDA received Hurricane Andrew relief proposals requesting a total of more than $130 million, and the agency funded 28 projects totaling $50.9 million. EDA did a good job of quickly selecting the projects, and for the most part, chose projects that were both sound in concept and appeared responsive to the economic recovery needs of the area. However, there were serious problems with 9 projects that were late in starting and slow in being completed. These projects also tied up millions of dollars that could have been put to better use for other disaster recovery purposes.

The problematic construction projects had two common traits—purpose and location. Specifically, all but three were located outside the direct path of the hurricane and all nine were designed to mitigate or accommodate the out-migration of businesses or enhance or encourage tourism in areas affected by the storm, as opposed to repairing or replacing storm-damaged buildings and infrastructure. In contrast, all of the projects that were finished on time were
located within the 20-mile path of the hurricane and were more traditional repair-and-replace public works projects. The location and purpose of the delayed projects made them less urgent than the others and therefore more vulnerable in part because they lacked sufficient local impetus to proceed on their own. These findings are key and so relevant, when we look at the scope of the area affected by Hurricane Katrina and the obvious competing requests for assistance.

Our report highlighted a number of management issues that have relevance for current recovery efforts and can help ensure that taxpayer dollars spent on today’s disasters go to the intended recipients; are used effectively, efficiently, and in a timely manner; and thus accelerate economic recovery. It is critical that agencies do not overlook the need to give close attention to shortcomings in project oversight in light of the monumental rebuilding effort required post-Hurricane Katrina. Officials must follow basic principles to monitor projects, such as obtaining routine performance reports that notify the agency about delays and the reasons for them. For example, EDA requires grantees to submit quarterly status reports before receiving disbursements in order to protect the government’s financial interest. These reports are the early warning system for advising the agency of a project in trouble. If officials recognize the symptoms of problem projects early on, they can promptly act to fix them, where possible, or terminate the award and redeploy the remaining

<table>
<thead>
<tr>
<th>Lessons Learned from EDA’s Hurricane Andrew Recovery Efforts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Target communities directly impacted.</td>
</tr>
<tr>
<td>2. Focus immediate rebuilding efforts on vital infrastructure and commercial concerns.</td>
</tr>
<tr>
<td>3. Enforce standard monitoring procedures (e.g., require periodic status reports).</td>
</tr>
<tr>
<td>4. Provide consistent, ongoing oversight both on-site and from agency headquarters.</td>
</tr>
<tr>
<td>5. Quickly rehabilitate or terminate projects that are failing to meet milestone goals and transfer funds to other disaster recovery purposes.</td>
</tr>
</tbody>
</table>
funds. In addition, monitoring projects on-site is critical so that officials gain first-hand knowledge and can provide direct oversight of how funds are being expended.

**PLANS FOR PREVENTING AND DETECTING UNAUTHORIZED ACTIVITIES**

In the aftermath of so devastating an event as hurricane Katrina, there is a distinct tension between the desire to aid affected businesses, communities, and individuals as quickly as possible and the need to ensure that sufficient controls are in place to prevent desperately needed funds from being wasted. As noted, inspectors general play a critical role in ensuring that federal funds designated for recovery are used wisely. To that end, my office has been working closely with Department of Commerce and DHS officials to identify all funds being spent by Commerce on Katrina-related activities.

I mentioned earlier that the Department has established internal controls to identify and monitor Katrina funding and expenditures. We plan to assess these financial and procurement controls before dollars are spent, and the Department’s Chief Financial Officer has agreed to work closely with my office to monitor the effectiveness of these controls on a continuing basis.

As expenditures are identified, my office will determine which ones are funding repair of Commerce buildings and equipment in the Gulf region and which are providing economic assistance to businesses, communities, and individuals affected by Katrina. We will evaluate how effectively these projects are progressing and whether they are in fact targeting the most
critical needs.

Already, we have paid particular attention to the Department’s decision to utilize procurement flexibilities made available in the aftermath of Katrina. The Department recently raised the spending ceiling for NOAA purchase card users to $15,000 for Katrina-related expenditures. In light of the well-publicized history of problems with federal employees’ use of purchase cards and the related lessons learned, we know all too well the importance of closely monitoring individual users for these cards. Likewise, the Department raised the simplified acquisition threshold from $100,000 to $250,000 post-Katrina, which again increases risks for fraud and misuse—problems we have noted in prior audits of this procurement method. We will actively monitor transactions impacted by these changes to ensure that only authorized personnel are involved, government funds are being used appropriately, and purchases clearly comply with applicable requirements.

With regard to economic assistance provided by Commerce bureaus such as EDA, we plan to closely monitor any instances where traditional financial assistance terms and conditions are bypassed. While it is important to recognize the need for flexibility in the current environment, it is equally crucial to understand that deviating from normal procedures governing such awards naturally increases the risk of waste, fraud, and abuse. Hence, it is critical that appropriate controls are in place.

Similarly, while careful contract oversight is always important, given the procurement
flexibilities the Department will be able to exercise, aggressive monitoring is essential. While we will not be able to audit all Katrina-related contracts and grants, my office will determine which activities seem most at risk and will focus our audit efforts on those projects.

**CONCLUSION**

The Department of Commerce plays a critical role in preparing for, responding to, and recovering from natural disasters such as Hurricane Katrina, and thus in promoting the economic well-being of the nation. The immense public support to aid victims and rebuild the Gulf region through large infusions of resources and expedited regulatory processes naturally increases risks that taxpayer dollars will be misused. My office, in coordination with DHS, the IG community and other agencies, will vigilantly monitor departmental programs, determine whether appropriate management controls and procedures are in place, and work to resolve any weaknesses we identify so that Congress and the American public can have confidence that tax dollars are spent as intended.