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BEFORE THE
SUBCOMMITTEE ON EMERGENCY COMMUNICATIONS, PREPAREDNESS
AND RESPONSE

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OVERSIGHT

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Good morning, Mr. Chairman and Members of the Subcommittees.

My name is Matt Jadacki. I am the Deputy Inspector General for Disaster Assistance Oversight in the Office of Inspector General for the Department of Homeland Security (DHS). Thank you for the opportunity to discuss the major management challenges facing the reform of the Federal Emergency Management Agency (FEMA).

With the creation of DHS in 2003, FEMA was absorbed and became part of the Emergency Preparedness and Response Directorate. In the aftermath of the 2005 Gulf Coast Hurricanes, FEMA received much criticism for its handling of the disaster. To address perceived deficiencies, Congress passed the Post-Katrina Emergency Management Reform Act of 2006 as Title VI of the FY 2007 Homeland Security Appropriations Act. These management reforms enhanced FEMA's mission and role as the federal government's disaster coordinator.

The legislation transfers most Preparedness functions and programs to FEMA. Preparedness is one of the cornerstones of emergency management at the federal, state, and local level. The new legislation enables FEMA to restore the nexus between emergency preparedness functions, and response, recovery, and mitigation efforts. Together with this reorganization, a renewed focus on an all-hazard approach to disaster management will strengthen FEMA's ability to effectively prepare and respond to future natural or man-made disasters.

The Reform Act also elevated FEMA's standing in DHS and afforded FEMA statutory protections as a distinct entity in the Department by preventing transfers of FEMA assets, authorities, personnel, and funding. We believe this is a step in the right direction. However, along with the increased responsibilities come additional burdens to FEMA's infrastructure, particularly its support organizations.

FEMA is still recovering from the effects of the Gulf Coast hurricanes. FEMA's systems were strained as a result of the disaster and experienced staff left in droves while workloads increased. These strains continue, but FEMA is making progress. FEMA has embarked on a number of internal assessments to improve operations. Staff levels have increased and, more importantly, FEMA is establishing a solid management team with extensive emergency management expertise to implement reforms. In addition, improvements to information systems are planned and Congress has provided additional funding to enable FEMA to carry out its mission.

My testimony discusses a number of management challenges FEMA needs to address in order to successfully implement the reforms, improve its response and recovery capabilities, and meet the needs of American citizens in times of crisis.

Management Challenges

DHS's failures after Hurricane Katrina ravaged the Gulf Coast on August 29, 2005, illuminated longstanding problems within FEMA. Many of the problems existed for years, but had not received attention because FEMA had never before dealt with such a devastating disaster. The total cost of Federal response and recovery efforts could reach \$200 billion or more. The Gulf Coast hurricanes revealed that FEMA has shortcomings in managing assistance and housing for evacuees, information systems, contracts and grants, and implementing the National Flood Insurance Program. We are planning additional work to assess FEMA's readiness to respond to future catastrophic disasters.

DHS, including FEMA, has learned many lessons from Katrina and has taken steps to improve their ability to respond to catastrophic disasters in the future. For example, DHS and its Federal partners revised the Catastrophic Incident Supplement to the National Response Plan to establish a better-coordinated strategy for a federal response to a catastrophic disaster. In addition, FEMA is working to improve its ability to house large numbers of evacuees and supply commodities to disaster victims more quickly. However, these catastrophic housing and logistics plans must be thoroughly tested and exercised before the next disaster strikes.

Disaster Housing

One of the most significant problems FEMA faced in the aftermath of Katrina was assisting, sheltering, and housing evacuees. Never before had so many people been displaced for such an extended period of time. FEMA's existing programs were inadequate and efforts to house victims in travel trailers and mobile homes were not well managed. The number of victims also overwhelmed FEMA's system for verifying identities and providing individual assistance payments. The result of FEMA's efforts to speed up this process resulted in widespread fraud. In February 2006, we reported on weaknesses in FEMA's registration intake controls and recommended actions to improve them. FEMA has improved its intake process and increased the system's capacity, but the changes are untested and may not be sufficient to address existing deficiencies. We will continue to help FEMA find solutions to be better prepared for the next catastrophic disaster or even multiple disasters.

In response to Katrina, FEMA purchased more than 24,000 mobile homes, 143,000 travel trailers, and 1,700 modular homes. The current inventory at staging areas is 63,597 units. Some of the modular homes were not well maintained and deteriorated over time. There are currently 91,402 trailers and mobile homes occupied by disaster victims. Some of the modular housing units have been sold and FEMA is considering selling others through the U.S. General Services Administration. As disaster victims return to permanent residences, hundreds of mobile homes/travel trailers are returned to FEMA each week. Because of the deactivations and excess inventory, FEMA is running out of storage space and is considering options to donate and/or sell the units.

Mission Assignments

To help with response to Hurricane Katrina, FEMA issued approximately 2,700 mission assignments totaling about \$8.7 billion to Federal agencies. FEMA historically has had significant problems issuing, tracking, monitoring, and closing mission assignments. FEMA guidance on the assignments is often vague, and agencies' accounting practices vary significantly, causing problems with reconciling agencies' records to FEMA records. FEMA has developed a number of new pre-defined mission assignments to expedite some of the initial recurring response activities. In addition, FEMA's Disaster Finance Center is working to find a consensus among other Federal agencies on appropriate supporting documentation for billings. We are conducting a review of mission assignments to DHS agencies, and other Inspectors General are reviewing mission assignments to their respective agencies.

Grants Management

FEMA faces a significant challenge in management/oversight of its disaster assistance grant program as well as the DHS grant programs that will become a part of FEMA on April 1, 2007. Compounding the challenge are the grant programs of other federal agencies that assist states and local governments in improving their abilities to prepare for, respond to, and recover from acts of terrorism or natural disasters. Congress continues to appropriate and authorize funding for grant programs within and outside of DHS for similar, if not identical, purposes. We have identified at least 36 federal assistance programs that may duplicate FEMA grant programs. As part of its expanded role and responsibility for grants management, FEMA must coordinate and manage grants that are stovepiped for specific, but often related purposes to ensure that these grants are contributing to our national preparedness goals and recovery from disasters, rather than duplicating one another or being wasted on low-priority capabilities.

Given the billions of dollars appropriated annually for disaster and non-disaster grant programs, FEMA needs to ensure that grants management internal controls are in place and adhered to, and that grants are sufficiently monitored to achieve successful outcomes. FEMA also needs to ensure that, to the maximum extent possible, disaster and homeland security assistance goes to those states, local governments, private organizations, or individuals eligible to receive such assistance and that grantees adhere to the terms and conditions of the grants awards. Regarding its management of first responder grants, FEMA will need to build upon the Preparedness Directorate's efforts to refine risk-based approaches to awarding these grants to ensure that areas and assets representing the greatest vulnerability to the public are as secure as possible. FEMA must incorporate sound risk management principles and methodologies to successfully prepare for, respond to, recover from, and mitigate acts of terrorism and natural disasters.

Acquisition Management

Acquisition management involves more than just awarding a contract. It is critical to fulfilling a mission need through a thoughtful, balanced approach that considers cost,

schedule, and performance. The urgency of FEMA's mission will continue to place demands on its ability to effectively manage acquisitions. In 2006, FEMA spent a large percentage of its budget on contracts. We have focused substantial effort on FEMA's contracting and have identified numerous problems. FEMA is not well prepared to provide the kind of acquisition support needed for a catastrophic disaster. FEMA's overall response efforts suffer from:

- Inadequate acquisition planning and preparation for many crucial needs;
- Lack of clearly communicated acquisition responsibilities among FEMA, other federal agencies, and state and local governments; and
- Insufficient numbers of acquisition personnel to manage and oversee contracts.

FEMA is making progress establishing pre-disaster or standby contracts for goods and services required in the aftermath of a major disaster. When the federal government procures goods and services after such an event, opportunities for open competition are limited, as is all too often its ability to get the best possible prices. There were numerous and widely publicized sole source and limited competition contracts after Hurricane Katrina. While FEMA eventually recompeted most of the major contracts, it needs to continue its efforts to establish competitive contracts for the next catastrophic event.

We recently reported that FEMA hastily awarded a \$100 million contract to establish base camps in the gulf area to house and feed response workers. Because of a shortage of trained and experienced contracting staff, unclear contract terms and conditions, and other problems with the contract, there were contractual deficiencies, excessive billings, and questionable costs of \$16.4 million.

FEMA did not place enough contracting staff in the field offices to handle the enormous workload necessitated by Hurricanes Katrina and Rita. Contracting officials were responsible for the administration and oversight of numerous large-dollar contracts over a wide geographical area. Contracting staff rotated in and out of field offices, resulting in inconsistent instructions to contractors and haphazard contract administration. Contracting personnel were often inexperienced, and their performance reflected the lack of proper training to perform assigned responsibilities, especially in a high-volume, emergency environment. Some contracting officers were not experienced in writing the types of contracts needed and were unable to analyze proposed contract costs to ensure reasonableness. Many Contracting Officer's Technical Representative, or COTRs, were too inexperienced to recognize unauthorized and excessive billings and poor or unauthorized contract performance.

FEMA has already made improvements to their contracting capability, such as increasing the number of standby contracts in place and ready to be executed when disaster strikes. DHS has also created a Disaster Response/Recovery Internal Control Oversight Board to address many of the problems. In addition, FEMA has begun a hiring initiative aimed at

restoring staff levels to 90 percent of capacity. FEMA recently reported that it plans on hiring 41 new employees for its procurement division.

Additional Acquisition Challenges

We will soon conduct a review of FEMA's overall acquisition management structure to identify improvements that can make FEMA better prepared for the next catastrophic disaster. Much of our work will focus on the following areas:

- **Organizational Alignment**: In the transition into DHS, seven agencies, including FEMA, retained their procurement functions. DHS established an eighth acquisition office, the Office of Procurement Operations, under the direct supervision of the Chief Procurement Officer, to service the other DHS components and manage department-wide procurements. Until recently, FEMA had an unusual procurement structure with two heads of contracting activity. This structure created redundancy and inefficiency.
- **Policy and Guidance**: FEMA has not had an active Policy Office since 1999. This has been a major barrier to the successful, cohesive acquisition operations. Interpreting, implementing, and monitoring acquisition policy are essential functions. They ensure that the organization complies with law and policies. The absence of current policy and standardized performance measures make it difficult to establish where the agency stands when compared to other federal agencies.
- **Acquisition Workforce**: Hundreds of staff left after Hurricane Katrina struck. FEMA now has a campaign to hire a large number of qualified replacements. The individual assistance and technical assistance section of FEMA has recently completed its hiring effort. After such a large expenditure of staff, time, and resources to hire the right individuals, retention is crucial. Hurricane season is approximately 4 months away, and these new employees must be able to function effectively by that time.
- **Knowledge Management and Information Systems**: Outdated and non-existent information technology tools are another of FEMA's management challenges. FEMA does not have an IT strategy that addresses the needs of the agency—particularly with regard to workflow routing, financial management, and document management. The lack of a DHS-wide IT strategy has forced early technology adopters within the acquisition community to create job aids that are not shared and deliver varying levels of support. This situation has forced each DHS Head of Contracting Activity (HCA) to develop an IT standard applicable only at their organization. This allows for discretion, which can be an empowering force yet, at times, can be contrary to overall Department-wide mission and goals.

To improve the overall acquisition management functions, FEMA needs to address the conditions described above. We will advise FEMA as our work continues and offer recommendations for improvement.

National Flood Insurance Program

Floods are among the most frequent and costly of all natural disasters. They result in the loss of many lives and much property each year. FEMA is now faced with National Flood Insurance Program (NFIP) issues ranging from outdated flood maps to the question of whether damages are the result of flooding from storm surge or hurricane winds. Many NFIP related questions need to be addressed before the next catastrophic flood.

As a result of Hurricanes Katrina, Rita, and Wilma, the NFIP paid claims in excess of \$20 billion most of which was borrowed from the Treasury. Heavy borrowing, uncertain financial solvency, outdated flood maps, and other problems continue to plague the program. In addition, the NFIP is now on the Government Accountability Office's (GAO) high-risk list. We have several ongoing or planned NFIP reviews and will continue to monitor activities under this program.

Information Technology

FEMA made progress in several IT areas, particularly short-term adjustments to prepare for the 2006 hurricane season. These improvements focused primarily on increasing National Emergency Management Information System (NEMIS) capacity and online system access and strengthening verification of registration data. NEMIS is the enterprise-wide automated system that integrates hardware, software, telecommunications, applications software, and operational procedures to handle the processing and management of disaster victim assistance to individual citizens and public assistance. FEMA and its program offices have addressed our recommendations by documenting training resources, developing a plan to implement an enterprise architecture (EA), gathering requirements for new business tools, and improving configuration management.

Despite these positive steps, FEMA has not documented or communicated a strategic direction to guide long-term IT investment and system development efforts. FEMA also has not performed crosscutting requirements gathering to determine business needs, which would allow Information Technology Services Division (ITSD) personnel to analyze alternatives to customize NEMIS. We note several resource challenges FEMA faces in accomplishing these tasks, including personnel needs, time limitations, and funding constraints. For example, high-level officials acknowledged the need for staff who can effectively and efficiently manage system development efforts, especially as key personnel are allocated to assist in disaster and emergency response activities. Further, FEMA officials told us that funding constraints have also prevented the creation of sufficient training and testing environments. Therefore, constrained by limited resources, FEMA focused its efforts on short term fixes, e.g., preparing for hurricane season, and

has made little progress in addressing long-term needs, such as updating strategic plans, defining cross-cutting requirements, and evaluating systems alternatives.

Fraud Detection and Prevention

In the wake of Hurricane Katrina, information-sharing was poor to non-existent. There is a need for data-sharing in three areas: (1) real-time data exchange among agencies to simplify the application process for victims and to help verify eligibility of applicants for disaster assistance; (2) direct access to FEMA data by law enforcement agencies to identify and track convicted sex offenders and suspected felons, and help locate missing children; and, (3) computer data matching to help prevent duplicative payments and identify fraud. FEMA is moving in the right directions on these issues. For example, FEMA has granted direct access to its data to the Hurricane Katrina Fraud Task Force for the purpose of investigating fraud. However, progress is slow and much remains to be done. FEMA and the federal community are not yet ready to meet the data sharing requirements of the next catastrophic disaster.

Congress provided approximately \$85 billion dollars to multiple federal agencies for Gulf Coast disaster response and recovery. In the area of housing there were four primary agencies that provided housing assistance: DHS, U.S. Department of Housing and Urban Development (HUD), U.S. Department of Agriculture (USDA), and U.S. Department of Health and Human Services (HHS). A recent USDA audit revealed that more than 44% of disaster victims received housing assistance from more than one federal agency. GAO estimated that DHS improperly disbursed between \$600 million and \$1.4 billion in disaster assistance after Hurricanes Katrina and Rita.

The Computer Matching and Privacy Protection Act, which establishes procedural safeguards for computerized matching of Privacy Act-protected information, impeded federal Inspectors General from immediately performing computer matching to identify Hurricane Katrina disaster assistance fraud because of the review and approval process. Computer matching is the automated comparison of two computerized databases. Computer Matching can be used to identify relationships that indicate possible instances of fraud. In contrast to manual searches, computer matching allows auditors to quickly and inexpensively analyze massive volumes of data. If Inspectors General had been empowered to match their agency's respective disaster assistance files with those of others providing assistance in the aftermath of Hurricane Katrina, they could have helped mitigate improper payments and identify and recover erroneous payments in a timely manner.

The President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency reported to Congress that the requirements of the Computer Matching and Privacy Protection Act hindered several proactive fraud investigations relating to Hurricane Katrina from being initiated. A computer matching agreement generally takes several months to execute, thereby forcing law enforcement, including the Hurricane Katrina Fraud Task Force, to rely on manual searches within numerous disaster assistance databases to help detect fraud.

An exemption for federal law enforcement agencies, including Inspectors General, from the Computer Matching and Privacy Protection Act to support efforts to identify and prevent fraud, waste, and abuse following a disaster should be considered by Congress. Such an exemption would greatly facilitate the efforts of the federal law enforcement community to obtain and analyze federal disaster assistance records for the purpose of promoting integrity in federal disaster assistance programs and facilitate the detection, prevention, and prosecution of disaster benefit fraud.

Review and Revision of the National Response Plan

The National Response Plan (NRP) is being extensively revised to incorporate lessons learned from the response to Hurricane Katrina. We have observed a genuine effort to reach out to all stakeholders, both public and private, to invite participation in the review and revision process. Our primary concern, however, is the ambitious timetable to complete the revisions by June 2007. Ultimately, the result of this effort cannot be measured until the revised NRP is fully exercised or used during a large-scale disaster.

In our *Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina* (OIG-06-32), we reported that there was confusion at the Federal, State, and local level regarding the NRP and the Incident Command Structure and who was in charge. We recommended a clarification of the roles of the Principal Federal Official, the Federal Coordinating Officer, the Federal Resource Coordinator, and the Disaster Recovery Manager, to provide a clear distinction for the types and levels of response activities for each position or combination of positions and the type of events that would warrant their engagement. Further, we recommended that these officials be provided with the necessary training to complement their qualifications for serving in these positions. These recommended changes are critical to create an efficient and cohesive response to a catastrophic event.

Based upon two recent audits undertaken in relation to Hurricane Katrina and the NRP, we offered two primary suggestions to the NRP/NIMS Steering Committee:

- Address *Public Safety and Security* in both the Catastrophic Incident Annex and the Catastrophic Incident Supplement to further describe the operational strategy that guides the delivery and application of Federal law enforcement capabilities and resources for public safety and security during disasters.
- Describe the role of federal Inspectors General in the NRP's Financial Management Support Annex and note that FEMA may designate as oversight funds up to one percent of the total amount provided to a Federal agency for mission assignment.

We will continue to monitor and advise FEMA as it makes the necessary revisions to the NRP.

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The management challenges I have described above are not all inclusive. Integrating Preparedness programs, meeting the reporting requirements of Congress, improving accountability, increasing transparency, and building a solid logistics capability are also critical improvements that will require significant resources and effort. FEMA leadership is making progress in resolving these challenges. We will continue to review FEMA's progress, help it focus on critical issues, and facilitate solutions to significantly improve its ability to carry out its mission to coordinate disaster response and recovery efforts.

Mr. Chairman, this concludes my prepared statement.

I will be pleased to answer any questions you or other Committee Members may have.