Good morning Mr. Chairman and Members of the Subcommittee. I am pleased to be here today to discuss the current and planned work of the Environmental Protection Agency (EPA) Office of Inspector General (OIG) to detect and guard against fraud, waste, and abuse during post-Hurricane Katrina response and rebuilding efforts. Like the rest of the country, I watched in horror as Katrina devastated the lives of residents in Louisiana, Mississippi, Alabama, and Florida, and wreaked havoc on the environment on an unprecedented scale, the impact of which is still to be determined. Some estimate that the final cost for the response and rebuilding effort in the affected areas could reach $200 billion. The final figure may be even higher given the damage caused by Hurricane Rita in Texas and Louisiana this past weekend. As these Gulf States begin to rebuild, the EPA-OIG, in partnership with my colleagues in the Inspector General community, is committed to ensuring that Katrina funds are properly managed and spent, and that fraud and abuse are deterred and detected.

**EPA Katrina Relief Funding**

Congress has enacted two emergency supplemental appropriations providing over $63 billion for Katrina relief. Those funds have been appropriated to the Department of Homeland Security (DHS) and the Department of Defense. While EPA has not received any direct appropriation in either spending measure, it has received $135.1 million in mission assignments from the Federal Emergency Management Agency (FEMA). FEMA has authorized EPA to perform relief and recovery work such as providing technical assistance, conducting environmental assessments and removal and disposal activities so long as costs do not exceed this amount. EPA has also received $3 million from the U.S. Army Corps of Engineers. Of this $138.1 million, $67.3 million is a direct pass-through to the Coast Guard. To date, EPA has obligated $57.1 million, with $41.3 million going to the Coast Guard.

**OIG Oversight Plan of EPA’s Katrina Response Efforts**

The OIG has auditors, program evaluators, and investigators who can provide immediate and continuing oversight of contracts, grants, and governmental operations related to EPA’s Hurricane Katrina response efforts. Our current work includes monitoring the following areas: EPA operations; internal controls; contracts, grants, and expanded micro-purchase authority; and EPA’s disaster management activities in response to Katrina. These are the areas we believe need aggressive oversight.
immediately so that steps can be taken to address vulnerabilities before they might lead to fraud, waste, or abuse.

As part of our initial oversight effort, the OIG intends to devote approximately five investigators, eight program evaluators, and six auditors to provide Katrina oversight, as well as two Information Technology Specialists for data mining. We will use existing hotline capabilities to handle all complaints of fraud, waste, and abuse involving EPA funds. We will also use existing partnerships established through the U.S. Comptroller General's Domestic Working Group, the President's Council on Integrity and Efficiency's (PCIE) Homeland Security Roundtable, and the Intergovernmental Audit Forum to coordinate and ensure adequate, cost-effective audit coverage. We also have an existing interagency agreement with the Defense Contract Audit Agency that we can use to provide additional financial audit coverage of contractors.

Beyond these immediate activities, our plan provides for continuing oversight of EPA response efforts. Within six months, we intend to complete reviews of whether EPA provided accurate and timely data to the public along with Federal, State, and local decision makers regarding the safety of drinking water and waste water and on the health and environmental risks of Superfund sites, hazardous material spills, sediment contamination, and other hurricane debris. Finally, we plan to issue a guide on promising practices developed by Federal, State, and local agencies to improve grant accountability through the Domestic Working Group chaired by the U.S. Comptroller General. Our plan is detailed below.

**Overseeing EPA Operations**

We will monitor EPA operations to stay current on all disaster response operations and provide advice as necessary. Our objective in this effort is to help EPA design and implement internal controls and advise EPA on the potential ramifications of its precedent-setting decisions as emergency response and recovery activities continue.

We have deployed an advance team of Special Agents to evaluate the conditions on the ground in Mississippi and Louisiana. This team will coordinate with FEMA and to assess housing and facilities to support another team to be deployed in the near future. We are organizing a second team to serve as backup support with a secondary emergency response capability to Galveston and Houston, Texas. A third group of agents are on standby, preparing equipment for deployment. These EPA-OIG investigators will coordinate and monitor EPA contracting activity, liaison directly with EPA On-Scene Coordinators and contract personnel, and coordinate with Federal, State, and local law enforcement. OIG investigators will handle criminal allegations developed through field activity, liaison, and on-site observation, as well as allegations received as a part of the Department of Justice task force, our OIG hotline, or other means.
Monitoring Controls

Effective internal controls are vital to safeguarding funds and operations. We will review contracting and other controls to ensure that transactions are properly authorized and documented; funds are properly accounted for; property and equipment is safeguarded against loss; questionable activities, including activities not in support of mission requirements, are identified; timely and accurate analyses of samples by laboratories are conducted; misspending is prevented or minimized; and Federal laws and regulations are followed.

Reviewing Contracts, Grants, and Expanded Micro-Purchase Authority

We will review contract and grant award administration, along with EPA’s expanded micro-purchase authority to ensure that Federal acquisition regulations are adhered to. Expenditures will be reviewed on a real-time basis to ensure they are necessary and reasonable. This is critical given that the purchase card threshold has been raised from $2,500 to $250,000 for Katrina-related expenditures, and that the requirement for competitive bids on Katrina-related contracts has been eliminated. Data mining techniques will provide continuous oversight of purchase card transactions to identify spending anomalies for further review. OIG efforts in these areas will be focused on preventing or minimizing problems.

We have expanded our work on EPA’s financial statements to include EPA’s activity related to the Katrina response effort. Our audit work will include tests of EPA’s internal controls for identifying and charging costs for Katrina response. We will also test disbursement, obligation, and payroll transactions related to Katrina response for the month of September 2005, which is the end of the financial audit period. These tests will include statistical sampling of transactions, analytical reviews, and overall account analysis of activity.

EPA has set up new codes in its accounting system to record Katrina response transactions. We will analyze the costs charged to those codes to see if they appear reasonable in relation to the nature and types of costs. When we identify questionable transactions or trends, we will follow up with EPA to make recommendations to strengthen controls. While our current work will primarily address activity in September 2005, it will provide a basis for continuing analysis of Katrina activity for fiscal 2006.

Evaluating EPA's Disaster Management Activities in Response to Hurricane Katrina

We will evaluate the effectiveness of EPA's role in protecting the health of citizens, responders, volunteers, and the environment under the National Response Plan (NRP) and statutes governing EPA operations, including the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act; the Clean Water Act; the Safe Drinking Water Act; and the Clean Air Act. We will also evaluate any subsequent modifications or waivers to these plans and statutes. Specifically, we will look at whether EPA provided high-quality and timely
information to Gulf State residents and others about the safety of their drinking water. Among the issues we will be addressing are whether potential sources of waterborne diseases caused by contaminated drinking water are identified and contained; and whether EPA’s protocols, including those lessons learned from the World Trade Center and the responsibilities as delineated in the NRP, reduce citizen exposure to contaminated drinking water. We will look at whether EPA provided accurate and timely data to the public and others about the health and environmental risks of hazardous material spills, Superfund sites, and sediment contamination in the affected regions. Among the questions we will ask are how EPA determined the nature, magnitude, and impact of oil and hazardous material spills and sediment contamination; and how EPA made distinctions between hazardous and non-hazardous hurricane debris and waste, and if those distinctions were applied consistently across the Gulf Coast region.

Developing a Guide on Grant Accountability

On behalf of the U.S. Comptroller General’s Domestic Working Group, the OIG is leading an effort to look at ways to improve grant accountability so that the billions spent in Federal grants each year are properly used and the desired results achieved. With the input and assistance of over 20 Federal, State, and local audit agencies, the end product will be a guide to grant accountability that will provide Government leaders at all levels with ideas to ensure that grant expenditures produce the products and services envisioned when they are awarded. We expect to issue this guide in October. The guide can be a useful and timely tool for those Government agencies involved in the Katrina response and rebuilding efforts.

Coordination with the President’s Council on Integrity and Efficiency

We will also be working closely with the President’s Council on Integrity and Efficiency Homeland Security Roundtable, chaired by the DHS Inspector General. This group is composed of Inspectors General from the 12 other departments and agencies that have been issued the largest mission assignment allocations from FEMA. We will continue to assist the Roundtable by providing information about EPA’s use and management of its funds whenever called upon.

Conclusion

As EPA assists in the response and rebuilding efforts in the months ahead, the OIG will work to ensure that funds are guarded against fraud, waste, and abuse without impeding the progress of those efforts. I believe the OIG has developed an excellent oversight plan, but given the fluidity of the situation in the Gulf States, we will reassess our plan and make any necessary adjustments as events unfold. This concludes my written statement. I would gladly answer any questions the Subcommittee may have at this time.