

Statement of Senator Mark L. Pryor
Chairman, Subcommittee on Disaster Recovery and Intergovernmental Affairs Hearing
“PREVENTING IMPROPERLY PAID FEDERAL ASSISTANCE
IN THE AFTERMATH OF DISASTERS”
March 17, 2011

I want to start this hearing by acknowledging the ongoing fight to save lives in the wake of the one of the most deadly natural disasters in modern times. I know I speak for all of my colleagues when I say that we are holding up the thousands of Japanese citizens who have lost their lives, and the millions of Japanese people who have been impacted by this event in prayer. I am proud that American military and search and rescue resources are part of the global answer to the call to help Japan in its time of need.

I want to welcome our witnesses from the Federal Emergency Management Agency (FEMA), the Small Business Administration (SBA), the Inspector General’s Offices of both agencies, as well as all of my colleagues and the visitors who have joined us at the first hearing of the Subcommittee on Disaster Recovery and Intergovernmental Affairs.

A recently released report by the United Nations showed that 2010 was one of the worst years on record for natural disasters, and that we are in an unusual period of frequently occurring disasters. As the United States Government prepares to meet the challenges that are sure to come, we must ensure that our response and recovery mechanisms are strong enough to handle catastrophes ranging from a hurricane in the Gulf of Mexico to a major earthquake in Arkansas.

Today we will discuss ways to prevent the Federal Government from making improper payments in the wake of disasters. The GAO has determined that improper payments by government agencies have risen from an estimated \$20 billion at the turn of the century to approximately \$125 billion in 2010. As we prepare our government to more effectively manage the increased number of disasters, it is absolutely critical that we simultaneously work to ensure that Federal Government resources are distributed more efficiently in their aftermath.

Federal Agencies provide many types of assistance to disaster survivors including financial or cash assistance, which are payments directly to individuals. Providing cash assistance leaves any

system vulnerable to error and fraud. During disasters, when needs are significant and immediate, it is even easier for mistakes and confusion to result in improper payments. We must find ways to make fewer erroneous payments.

FEMA provides significant disaster assistance to individuals and families through its Individuals and Households Program (IHP). IHP assists disaster victims whose needs cannot be met through other forms of assistance, such as insurance or other federal programs. IHP grants may not exceed \$29,900 per individual or household, and are usually limited to a period of 18 months. Since Hurricanes Katrina and Rita, FEMA disbursed more than \$7 billion in IHP payments. A recent Department of Homeland Security Office of Inspector General (DHS OIG) review of FEMA's Fraud Prevention and Investigation Branch revealed that the agency distributed improper or erroneous disaster assistance payments totaling \$643 million among 160,000 applicants in the aftermath of Hurricanes Katrina and Rita. Let me make it clear, we are not out to vilify disaster victims, or to subject those who have already suffered unimaginably to harsh debt collection efforts. In fact, many of the errors we seek to identify were due to mistakes or inefficiencies by federal agencies. We will examine how these mistakes happened, the steps FEMA is taking to recoup the funds, and OIG recommendations for ensuring this does not happen again.

FEMA announced improvements to its recoupment programs over the past few days. I intend to ask them a number of questions about the newly implemented programs.

FEMA is not the only Federal agency charged with delivering assistance during disasters. The Department of Housing and Urban Development (HUD), delivers disaster assistance Community Development Block Grant (CDBG) funds to impacted communities and directly to individuals, and also administers the Disaster Housing Assistance Program (DHAP), through an interagency agreement with FEMA. HUD's role in disasters has increased dramatically over the past two decades. More than \$30 billion in HUD's CDBG program has been used since 1992 to provide flexible Federal funds to support States and/or local governments during long-term recoveries. Disaster CDBG funds are normally appropriated through disaster supplemental appropriations bills. Consequently, the CDBG Disaster Recovery program has operated without established

program rules, properly developed systems, or adequate staffing. We intended to ask HUD about the spending controls of both CDBG and DHAP, but HUD was unable to send anyone from the Department to attend the hearing despite testimony being requested well in advance. Officials from the Department have promised to send the Assistant Secretaries of its Public and Indian Housing and Community Planning and Development Offices to testify on this subject in the coming weeks.

In addition to FEMA and HUD, SBA also plays a large role in disaster assistance through its Disaster Loan Program. The Program provides Home Disaster Loans, Business Disaster Loans, Economic Injury Disaster Loans (EIDL), and Pre-Disaster Mitigation Loans, but approximately 80% of the agency's disaster loans help individuals repair and replace homes and personal property. SBA regulations limit home loans to \$200,000 for the repair or replacement of real estate and \$40,000 for the repair or replacement of personal property. Since 1953, SBA has approved roughly 1.9 million disaster loans for a total of more than \$47 billion. We intend to ask SBA how many of its loans end up in default and to inquire as to how the agency goes about collecting the debt. We will also ask the SBA OIG what recommendations it can make to FEMA about improving its recoupment capacity, since SBA, by virtue of dealing with loans, is better equipped than FEMA to recoup money.

As the catastrophe in Japan reminds us, we never know when disaster might strike. While we do not have the power of foresight, we must prepare our people and our government to deal with disasters when they occur. Disaster assistance must be provided in a way that ensures that people get what they need to rebuild their lives, but we must also ensure that tax payer dollars are delivered wisely and efficiently. I hope today's hearing will provide more ideas as to how best to do both.