

those in distress in the maritime region are just one of the many examples of the daily impact of the Coast Guard.

Mr. President, it is for these efforts and the exemplary service to our Nation that the Coast Guard was recently presented with the Department of Transportation's Gold Medal for Outstanding Achievement. Coast Guard men and women are the ultimate lifesavers and guardians of the sea. I am proud and honored to commemorate their birthday by commending them for their dedicated service to a very grateful Nation.

#### FEMA DISASTER RELIEF FUND

Mr. BOND. Mr. President, today I am releasing a report prepared at my request by the inspector general of the Federal Emergency Management Agency regarding the integrity of the disaster relief fund which raises some serious concerns about how disaster relief funds are being spent.

Last week, the President signed into law a supplemental appropriation of \$6.55 billion for the FEMA disaster relief fund. These funds are needed for expenses related to last year's Northridge earthquake as well as other disasters in 40 States, including my own. I'm pleased that the supplemental appropriation is now law, so that eligible expenses related to these catastrophic occurrences can be reimbursed.

Ensuring that these funds are expended to meet the critical disaster-related needs of individuals and communities, so that they can rebuild their lives and neighborhoods, is vital. However, ensuring that these funds don't serve as a slush fund for FEMA is absolutely essential, and the inspector general has raised questions about whether the disaster relief fund is indeed serving as a slush fund of sorts.

Specifically, the inspector general found that charges to the fund totaling \$87 million were for nonspecific disasters, some of which may be inappropriate. There are no explicit guidelines to define those activities that directly support disaster relief and are therefore legitimate charges.

The FEMA Director must address this issue immediately to give us confidence that the funds are being spent consistently with the intent of the law.

The inspector general also found that the disaster relief fund data are often unreliable, grants management is weak, disaster loan management is inadequate, and certain FEMA policies do not appear to encourage the prudent use of disaster dollars.

Mr. President, let me make clear, I believe FEMA Director James Lee Witt has done a superb job of responding to each and every disaster he has been responsible for—from the Northridge earthquake to the Oklahoma City bombing. He and the Agency should be commended.

But we must ensure that FEMA disaster relief funds—which now total about \$7 billion FEMA's accounts—are

spent carefully and judiciously. I intend to ask FEMA to come up with a plan for strengthening controls on disaster relief funds and issue explicit guidelines and criteria.

Mr. President, I ask unanimous consent that a brief, 6 page executive summary of the FEMA inspector general's audit of FEMA's disaster relief fund be printed in the RECORD.

There being no objection, the summary was ordered to be printed in the RECORD, as follows:

#### AUDIT OF FEMA'S DISASTER RELIEF FUND

##### PREFACE

This report presents the results of our audit of FEMA's Disaster Relief Fund. It was prepared in response to a request from Senator Christopher Bond and as part of our ongoing efforts to improve FEMA operations.

The report also addresses aspects of the Disaster Relief Fund that Director Witt asked us to review. It contains recommendations for corrective action. Accordingly, it is being sent to the Director, Associate Directors, Regional Directors, and the Chief Financial Officer. Copies of the report are also being sent to Members of Congress.

The Audit Division, Officer of Inspector General, prepared this report. Questions may be addressed to Richard L. Skinner, Assistant Inspector General for Audit, at (202) 646-3911.

GEORGE J. OPFER,  
*Inspector General.*

##### EXECUTIVE SUMMARY

In response to a request by Senator Christopher Bond, the Office of Inspector General undertook an audit of the Disaster Relief Fund. We concentrated our efforts on the financial management of the Fund and on issues that offered an opportunity for improving operations and reducing costs. Given the time available, we were not able to address every issue that deserved attention. We plan to continue to devote resources to the review of FEMA's use of the Fund.

It is important to consider the environment in which FEMA operated since the 1988 enactment of the Stafford Act. The number of disasters has steadily increased. There have been more average or "garden-type" disasters. In addition, the United States has been struck by two major hurricanes, Hugo and Andrew, the massive months-long Midwest floods, and the catastrophic Northridge, California earthquake. Responding to these disasters put tremendous pressure on FEMA's financial and personnel resources.

In this difficult environment, FEMA's performance in assisting disaster victims has been criticized. In response to this criticism FEMA has taken aggressive steps to improve the delivery of services while trying to contain costs. To illustrate, some of the more significant actions include:

- Acquisition of a new financial management system.

- Establishment of a Disaster Finance Center to process payments.

- Establishment of National Processing Services Centers.

- Automation of Teleregistration and damage verification inspections.

- Establishment of a Disaster Resources Review Board.

- Development of a new property management system.

These initiatives should go a long way in improving disaster relief operations and reducing disaster costs. However these actions are only the first steps. Much more work needs to be done. Clearly through, FEMA is on the right road and given enough time and resources the problems can be solved.

We present numerous findings and recommendations that should aid FEMA in its efforts to improve operations and reduce costs. The following summarizes those findings.

##### RELIABILITY OF FINANCIAL DATA

Disaster Relief Fund financial data are often unreliable. The Fund balance does not accurately reflect either cash in the Fund or amounts available to assist disaster victims. FEMA's accounting system is inadequately controlled and personnel lack the discipline necessary to ensure financial data integrity. Budget requests are flawed because they are based on unreliable financial data and projected disaster costs that are not precise. (See Chapter 1, page 9.)

##### APPROPRIATENESS OF EXPENDITURES

In fiscal year 1995, non-specific disaster charges are expected to total \$86.8 million, about four percent of total fund expenditures. Many charges appear legitimate. Others, however, fall into a "gray" area, i.e., depending on one's interpretation of the Stafford Act and related FEMA guidelines, they may or may not be appropriate charges to the Fund. FEMA needs to develop explicit guidelines that define those activities that directly support disaster relief operations and, therefore, are legitimate charges to the Disaster Relief Fund. (See Chapter 2, page 21.)

##### GRANTS MANAGEMENT

FEMA has awarded Public Assistance grants totaling billions of dollars to thousands of grantees without an adequate grants management system to ensure funds are used properly. Significant improvements are needed in pre-award and post-award processes to ensure that grantees are accounting for and using funds properly. Policies and procedures for all aspects of grants management are needed. (See Chapter 3, page 31.)

##### MANAGEMENT OF DISASTER LOAN PROGRAMS

FEMA's Disaster Loan Program includes State Share Loans and Community Disaster Loans totaling over \$179 million. FEMA has limited recourse in collecting loans if borrowers misuse funds. Loan agreements, and other contractual agreements are not regularly executed. FEMA's interest, therefore, is not protected. Better loan monitoring and tighter restrictions on borrowers' use of funds are needed. (See Chapter 4, page 47.)

##### ECONOMY AND EFFICIENCY OF OPERATIONS

We reviewed FEMA's management of human resources at the disaster site, use of mission assignments to task other Federal agencies for goods and services, and management of property acquired with Disaster Relief Funds. We also reviewed certain grant policies that did not appear to encourage the prudent use of disaster dollars.

After the initial response to a major disaster, FEMA can do a better job of managing resources to reduce travel related costs. We estimate that \$2 million dollars might have been saved in Northridge by hiring locals in a more timely manner. FEMA has recognized the need for improved staff management and is taking steps to improve its management of human resources at disaster sites.

FEMA does not have a system to ensure that the States' cost sharing requirements are satisfied for work done through mission assignments. Also, untimely billings from other Federal agencies are tying up disaster dollars for excessive periods.

Even though FEMA has taken several steps to improve controls over property, more still needs to be done. Additional training is needed to ensure the new property management system will work effectively. Also, there is a need to establish controls over property that is purchased by other Federal agencies under mission assignments.

FEMA's policy on small public assistance projects is resulting in unnecessary costs to disasters. Small projects are those under \$43,600 and are funded based on estimated cost. Under FEMA's policy, grantees are only required to certify that the project is completed; they are not required to account for project costs. As a result, funds that have not been used for disaster-related costs are not being returned to FEMA.

Grantees are not required to account for and are not spending all the funds provided for administrative costs associated with public assistance grants. There are two ways grantees can receive funds for administrative costs: (1) a statutory fee calculated as a percentage of public assistance awards; and (2) a management grant. The management grants are fulfilling much of the grantees' administrative requirements leaving much of the statutory fees unspent. FEMA needs to reexamine its policy for providing administrative fees to grantees to ensure that the funds are accounted for and actually needed for the delivery of disaster related services.

Considerable savings could be achieved by limiting the Federal cost share for public assistance projects to 75 percent of estimated project cost. Since 1989 the cost share for 22 disasters was 90 or 100 percent. We estimate that over \$1.5 billion could have been saved if the cost share had been held to 75 percent.

#### BACKGROUND

Since passage of the Stafford Act in 1988, FEMA has obligated about \$12 billion for disaster relief. FEMA officials project that an additional \$8 billion could be obligated for disasters declared prior to July 1, 1995. The Federal contribution for disaster assistance has increased dramatically in the past 20 years, due in part to the greater number and magnitude of disasters.

There is growing Congressional concern over the spiraling Federal outlays associated with FEMA's disaster assistance programs and a desire to control future disaster spending. FEMA, also, has recognized the need to control disaster costs. It has several initiatives underway or planned to get a better grip on the escalating costs.

Among the major initiatives that FEMA is currently developing or planning are: (1) a new financial system to permit better identification and control of billions of dollars of disaster related costs, (2) a property management system that will allow for better accounting and control over the millions of dollars of property purchased for disasters, (3) improvements in staffing disasters to control personnel and travel related costs, (4) centralization of support services such as financial management and applicant registration, (5) automation of labor intensive processes such as damage inspections, and (6) Performance Partnership Agreements with States that will limit the amount of disaster assistance based on a per capita dollar amount. All of these initiatives are underway, and if successful, should result in better management and control over disaster dollars.

Congress, however, remains concerned with the escalating costs of disasters. On April 27, 1995, the Office of Inspector General received a request from Christopher S. "Kit" Bond, Chairman of the Appropriations Subcommittee for Veterans Administration, Housing and Urban Development, and Independent Agencies, to undertake a review of FEMA's Disaster Relief Fund to identify ways that costs can be reduced.

This audit responds to the Senator's request by examining the nature of costs charged to the Disaster Relief Fund, the feasibility of converting loan programs to grants, the economy and effectiveness of disaster operations, and implications of increased cost sharing.

#### AMBASSADOR ALBRIGHT'S TESTIMONY ON IRAQ

Mr. PELL. Mr. President, yesterday the Senate Foreign Relations Subcommittee on Near Eastern and South Asian Affairs held two hearings on Iraq. The hearings, chaired by the distinguished subcommittee chairman, Senator BROWN, focused on the importance of maintaining U.N. sanctions on Iraq and on the Iraqi atrocities against the Kurds.

I thought both hearings made a significant contribution to the Senate's understanding of a critical foreign policy issue, and I commend Senator BROWN for bringing the matter to the forefront of the subcommittee's agenda.

At the start of the first hearing, U.S. Ambassador to the United Nations Madeleine Albright made a compelling, irrefutable case for keeping U.N. sanctions in place against Iraq. Equally as important, her testimony underscored the superb job the United Nations is doing to dismantle Iraq's weapons of mass destruction programs, deter further Iraqi aggression, and to protect Iraq's minorities.

At a time when the Congress is considering numerous proposals to condition or reduce U.S. support of the United Nations, Ambassador Albright's testimony serves to remind us of the tremendous contributions the United Nations makes to advance vital U.S. foreign policy interests. I ask unanimous consent that the full text of Ambassador Albright's remarks be printed in the RECORD.

There being no objection, the remarks were ordered to be printed in the RECORD, as follows:

#### STATEMENT BY AMBASSADOR MADELEINE K. ALBRIGHT

Good afternoon, Mr. Chairman, and members of the subcommittee.

I welcome this timely opportunity to discuss with you United States policy towards Iraq, with particular attention to the aspects of that policy that are carried out through the United Nations.

As members of the subcommittee know, the United States has been determined, in the aftermath of the Persian Gulf War, to prevent Iraq from once again developing weapons of mass destruction or threatening its neighbors with aggression. In this effort, the tool of economic and weapons sanctions, imposed by the U.N. Security Council, has been of singular value.

Over the past year, we have worked hard to gain and maintain support for our view that sanctions should remain in place until Iraq is in overall compliance with all relevant Council resolutions. This effort has been successful. In March, May, and again in July the sanctions were extended without controversy or change.

Iraqi officials have said publicly in recent days that, if the sanctions are not lifted in September, when they next come up for review, Iraq will cease to cooperate with the United Nations Special Commission, or UNSCOM, which is the body established to monitor Iraqi compliance. Such statements are harmful both to the interests of the Iraqi people and to the world at large.

The re-integration of Iraq into the world community is a goal we all share, but there

is only one path to that objective—and that path requires full cooperation with UNSCOM and full compliance with the requirements of the Council. The regime in Baghdad must understand that it is not involved in a negotiation; it is under an obligation brought on by its own transgressions.

The United States is insisting, as is a majority of Security Council members, that before there is serious discussion of lifting sanctions, Iraq must comply not only with its obligations concerning weapons of mass destruction, but with other obligations established under council resolutions. These include the return of stolen property, accounting for those missing in action, and ending support for terrorism and repression against the Iraqi people.

In his speech on July 17, Saddam Hussein characterized the UN sanctions as "cruel, harsh and repressive" and said they were causing "great suffering" among the Iraqi people. Unfortunately, the sincerity of this statement of concern is belied by Saddam's refusal to accept the terms of Security Council Resolution 986, which would permit Iraq to sell up to \$1 billion of oil every three months in order to purchase humanitarian supplies. It is belied, as well, by the "putting people last" spending priorities of the Iraqi government, by Saddam's campaign of terror against minorities in the north and south, and by the barbaric treatment given Iraqis suspected of disloyalty to the regime.

For four years, Iraqi officials have sought alternatives to full compliance with Council resolutions. They have delayed and obfuscated. They have demanded concessions in return for small steps. They have threatened and bullied UNSCOM. They have lied. Last fall, they even attempted to intimidate the Council through threatening military maneuvers directed towards Kuwait.

These tactics have not worked; and in the interests of stability and justice, they must not be allowed to work.

Last month's decision by the Iraqi government to release two American citizens who had been detained since March was welcome, but irrelevant to the sanctions issue. The two Americans should not have been jailed in the first place. We congratulate Representative Bill Richardson for his successful effort to gain their release, but his was strictly a humanitarian endeavor. There was no message of any kind from the Administration and no authorization to negotiate. The Richardson trip did not represent the opening of a new channel of communication between Iraq's government and our own, and it has not and will not influence our policy with respect to sanctions.

Let me describe now, more specifically, what that policy is and why we feel so strongly about it.

We are insisting that Iraq meet fully all obligations established by the Security Council because we remain highly distrustful of the Iraqi regime, and because that regime remains a potential threat to a region of great strategic importance to us and to the world. It was five years ago this week that Iraq invaded Kuwait. Hundreds of thousands of American soldiers put their lives at risk to halt and reverse that act of blatant aggression. We should not allow Saddam Hussein to regain in the Security Council what he forfeited through his own ambition and miscalculation on the battlefield.

It should be obvious that a premature return to business as usual with this regime would entail grave and unacceptable risks. If past is prologue, we could expect the Iraqi Government to resume the development and production of weapons of mass destruction as rapidly as possible; we could expect it to test repeatedly the limits of what could be gained through the intimidation of its neighbors; we